UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO

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In re: THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO, as representative of THE COMMONWEALTH OF PUERTO RICO, *et al.*, Debtors.	PROMESA Title III No. 17 BK 3283-LTS (Jointly Administered)

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[Response to Docket # 18116]

RESPONSE AND OBJECTION TO DEBTORS' MOTION *IN LIMINE* IN RESPECT OF EVIDENCE CONCERNING WHETHER THE PROPOSED PLAN OF ADJUSTMENT IS CONSISTENT WITH THE CERTIFIED FISCAL PLAN (RESPONSE AND OBJECTION FILED BY INDIVIDUAL BONDHOLDER, PETER C. HEIN)

Dated: September 21, 2021

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Hein Decl. ¶ & Ex.	Form of citation to the Hein Declaration that accompanies this Memorandum and exhibits attached thereto.

Peter C. Hein, a GO and PBA bondholder, hereby responds and objects to Debtors' Motion *in Limine* in respect of evidence concerning whether the proposed plan of adjustment is consistent with the certified fiscal plan.

I. DEBTORS' MOTION RAISES SUBSTANTIVE ISSUES THAT SHOULD NOT BE DECIDED IN THE CONTEXT OF A MOTION IN LIMINE AND THAT ARE NOT APPROPRIATELY ADDRESSED BY WHAT IN SUBSTANCE WOULD BE AN ADVISORY OPINION FROM THE COURT

FOMB starts off by saying "[t]he Oversight Board brings this Motion *to alert* the Court and parties in interest of an issue of subject-matter jurisdiction pertaining to the confirmation requirement in PROMESA §314(b)(7)" (#18116-page-6-of-13, emphasis added). Thereafter, in ¶5, FOMB goes on to state that, although "[b]y this motion the Oversight Board requests that the Court rule it lacks subject matter jurisdiction over challenges to the Oversight Board's Certification," FOMB also requests "that the Court allow all parties in interest having standing to proffer evidence on the consistency of the plan of adjustment with the certified fiscal plan, so that the Court can make its own findings on the topic to cover the contingency that an appellate court may determine the subject-matter jurisdiction issue differently." (#18116-page-7-of-13; *see also* #18116-page-8-of-13 (¶8 "Relief Requested").

Adding to the character of FOMB's in limine motion as effectively seeking an advisory opinion at this stage in the confirmation process, FOMB's position is that the plan of adjustment may be modified in the future, or the fiscal plan may be modified in the future, or both may be modified in the future, but come what may the FOMB "will continue to issue" certifications that the Plan is consistent with the Fiscal Plan "through confirmation so long as it determines, in its sole discretion, the consistency requirement is satisfied." #18116-page-8-to-9-of-13 ¶ 10.

So, in short, FOMB asks that the Court enter – now, in response to a motion *in limine* – an order "determining there is no subject-matter jurisdiction to consider challenges to the Certification" (#18116-page-8-of-13), but that nevertheless evidence should be proffered as if no such order finding lack of subject-matter jurisdiction had ever been entered.

Nowhere does FOMB explain what is accomplished by having such a ruling of lack of subject-matter jurisdiction be made now, in the context of an in limine motion, yet still allow all pertinent evidence to be submitted, as opposed to having the issue FOMB raises be determined when the Court rules on plan confirmation.

Furthermore, a ruling now – prior to the confirmation hearing – that any challenge to FOMB's certifications is barred by lack of subject-matter jurisdiction, will give FOMB carte blanche to modify the plan of adjustment, or modify the fiscal plan, or modify both, without this Court having the opportunity to issue its decision on the subject matter jurisdiction issue with the benefit of the full record that, under FOMB's motion, this Court will be given only post-decision. This only makes FOMB's request for relief in the guise of a motion *in limine* doubly improper.

The risk of a modification of the fiscal plan, or the plan adjustment, or both, before the confirmation hearing is not just theoretical. On September 15, 2021 FOMB advised Puerto Rico officials that, "[h]aving consulted with the Government," FOMB would be making certain revisions to the existing fiscal plan. FOMB stated it expected to certify a revised fiscal plan on October 20, 2021 – the *day after* objections to the plan of adjustment are due. Hein Decl. Ex. N.

FOMB's apparent objective – have this Court rule now on its motion, before the confirmation hearing, and slide by the deadlines for both voting and objection to the Plan, and then, once the deadlines for both voting and objections are past, announce modifications of both the fiscal plan and the plan of adjustment – is improper.

While I believe all matters raised by FOMB's motion should be deferred and considered in connection with plan confirmation, and that FOMB's in limine motion can and should be summarily denied based on the foregoing, I am constrained to more fully respond given the uncertainties as to how broad FOMB will view whatever relief the Court might grant at the in limine stage. The arguments and materials I submit herewith should also be considered in connection with any opposition to confirmation at the confirmation hearing.

II. 48 U.S.C. §2126(E) (PROMESA TITLE I) DOES NOT DEPRIVE THE COURT OF JURISDICTION TO EVALUATE COMPLIANCE WITH THE CONFIRMATION REQUIREMENTS OF §2174 (PROMESA TITLE III)

A. Federal subject matter jurisdiction over Title III cases, including confirmation proceedings, exists under 48 U.S.C. §2166(a).

FOMB appears to argue that, (i) since under 48 U.S.C. §2124(j)(l) and (2), it must "certify" the "submission or modification of a plan of adjustment" before taking that action, and that it "may certify a plan of adjustment only if it determines, in its sole discretion, that it is consistent with the applicable certified Fiscal Plan" (§2124(j)(3)), and (ii) under §2126(e) "[t]here shall be no jurisdiction ... to review challenges to [FOMB's] certification determinations", it is FOMB – not the Court – that must make the determination required by 48 U.S.C. §2174(b)(7) that "the plan is consistent with the applicable Fiscal Plan certified by the Oversight Board." #18116-page-6-to-7,8-to-9-of-13.

However, FOMB seeks confirmation of Commonwealth's plan pursuant to 48 U.S.C. §2174 (in Title III), and 48 U.S.C. §2166(a) – the specific jurisdictional grant applicable to Title III, including confirmation proceedings – broadly provides for federal subject matter jurisdiction of "all civil proceedings arising under" Title III, "or arising in or related to cases under" Title III.

Section 2174 requires the Court to review FOMB's proposed Plan and make prescribed determinations in order to confirm it. For example, FOMB must prove, *inter alia*, that Debtor is not prohibited by law from taking any action necessary to carry out the Plan (48 U.S.C. §2174(b)(3)); if FOMB in a fiscal plan prescribes limits on what may be paid for debt service that would result in violations of provisions of the U.S. Constitution or the Puerto Rico Constitution or statutes, a Plan that incorporated those fiscal plan limits would fail §2174(b)(3). Likewise, FOMB must prove compliance with the feasibility and best interest requirements of §2174(b)(6), which impose requirements for confirmation irrespective of whatever FOMB sets forth in a fiscal plan. And, as discussed in Point II.B below, in connection with Plan confirmation in a Title III case, §2166(a)'s jurisdictional grant permits the court to determine

whether the fiscal plan underlying the proposed plan of adjustment complies with the requirements of §2141, including §2141(b)(1)(N). There is no exception to the §2166(a) jurisdictional grant for any matters pertinent to whether any of the requirements of §2174 are met.

FOMB's fiscal plan – no matter how unreasonable and arbitrary its assumptions – cannot dictate the confirmation outcome, rendering the solicitation, voting and confirmation process a pointless exercise: On FOMB's theory, even at the plan confirmation stage – in considering whether to release and discharge the debtor from its obligations - the court would be powerless to modify whatever was unilaterally prescribed by FOMB in a fiscal plan. In essence, FOMB – acting here as representative of Debtors, and seeking releases of creditor claims against Debtors – would be "a judge in [its] own case", which – even apart from the terms of PROMESA discussed above and below– Due Process (among other legal principles) precludes. *E.g.*, *Chrysafis* v. *Marks*, _ U.S. __ (Aug. 12, 2021) (enjoining, pending review, a statute that permitted tenant self-certification of financial hardship and precluded a landlord from contesting that certification).

The case law FOMB cites (#18116-page-9-of-13) provides no support for its gambit on this motion. None of FOMB's cases arose in the context relevant here – where FOMB is seeking confirmation of a Plan, 48 U.S.C §2166(a) broadly provides for subject matter jurisdiction, and FOMB most prove that the proffered plan meets the requirements of 48 U.S.C. §2174. Thus:

- *Union De Trabajadores*, 7 F.4th 31, 40 (1st Cir. 2021) was "nothing more than a challenge to PREPA's inclusion of the Front-End Transaction Service Fee in its fiscal plan and FOMB's certification of that plan".
- *Méndez-Núñez*, 916 F.3d 98, 112-114 (1st Cir. 2019) concerned a suit seeking to declare that a budget certified by FOMB was "null and void" and to reinstate the legislature's budget. The First Circuit noted that "no federal constitutional claims have been brought" (*id*. at 114).

- This Court's opinion in *Ambac*, 297 F.Supp.3d 269, 283-84 (D.P.R. 2018) actually makes two key points that refute FOMB's position:
  - Citing 48 U.S.C. §2174 (PROMESA §314) this court stated: "Under PROMESA's statutory framework, it is only at the plan confirmation stage that the Court determines whether a proposed plan of adjustment complies with, among other things, the provisions of Title 11 of the United States Code which have been made applicable to these cases by section 301 of PROMESA and the relevant provisions of PROMESA. *See* PROMESA §314 [48 U.S.C. §2174]." (*Id.* at 284).
  - This Court expressly made the point that 48 U.S.C. §2126(e) does not preclude constitutional challenges to a fiscal plan (such as may be raised at the confirmation stage): "Section 106(e) [48 U.S.C. §2126(e)] does not, however, deprive the Court of jurisdiction to entertain Plaintiff's claims that the Fiscal Plan is invalid or unenforceable as violative of the Contracts, Takings and Due Process Clauses of the federal Constitution." (*Id.*)

B. Section 2166(a) provides this Court with jurisdiction to assess whether a failure to meet the requirements of 48 U.S.C. §2141(b)(1)(N) and §2174(b)(7) precludes confirmation.

Section 2141(b)(1)(N) requires that fiscal plans "shall … respect the relative lawful priorities or lawful liens, as may be applicable, in the constitution, other laws, or agreements of a covered territory … in effect prior to June 30, 2016." (emphasis added) Section 2174(b)(7) requires, at confirmation, the plan be "consistent with the applicable fiscal plan." At the confirmation stage, the Court has jurisdiction to assess whether FOMB's fiscal plan complies with the statutory mandate in §2141(b)(1)(N) ("shall").

The House report explanations of §2141 and §2174 states:

> ***Fiscal Plans ensure the protection of the lawful priorities and liens*** as guaranteed by the territorial constitution and applicable laws, and prevent unlawful inter-debtor transfers of funds. …

> By incorporating consistency with the fiscal plan into the requirements of confirmation of a plan of adjustment, **the committee has ensured lawful priorities and liens**, as provided for by the territory's constitution, laws, and agreements, **will be respected** in any debt restructuring that occurs. (H.R.Rep.page-114-602-regarding-§201,314-pp.58,63/115(emphasis added))(Hein Decl. Ex. M).

The Plan does not respect the "first claim" priority and liens of GO bondholders:

- Other classes that do not have Constitutional priority are unimpaired (e.g., Classes 51A,51C,51J,51K,55,57,67,68) or receive larger percentage recoveries, ranging from 91.5% up to 100% (Classes 51B,51D-to-51I,51L,69). #17628-page-79,464,466-to-481,489-to-491,504-of-654. The unimpaired claims include energy incentive and tax incentive claims aggregating over $2 billion. #17628-page-489-to-491-of-654.
- Yet additional classes that do not have Constitutional priority nevertheless receive non-contingent cash recoveries, including cash payments to public employees and their unions. E.g., Class 52,53,56,58. #17628-page-486-to-488,490-to-494-of-654.
- Under FOMB's own projections, over $2.1 billion of "Excess Cash Surplus" may be paid out for Upside Performance Bonuses ($1.551 billion) and Benefit Restoration ($620.6 million) in FY22-FY26. (#17627-page-41(§1.118), 57(§1.234), 127(§56.1(a)), 234-to-235,258-to-259-of-291; #17628-8-page-44-of-309; #16908-page-15-to-16,20-of-178). If the Medicaid funding "cliff" is averted (*see* Point II.C.3, below), added payments for Upside Performance Bonuses, Benefit Restoration and Pension Reserve contributions will be staggering.
- And if the 5/27/2020 fiscal plan projections are used as the benchmark, the added payments to or for the benefit of public employees and retirees and their unions will be doubly staggering. In this regard, FOMB has stated in 20.2.5 of the 4/23/2021 fiscal plan that "In order to ensure that retirees may benefit from the ***Commonwealth's outperformance of 2020 Fiscal Plan financial projections***, the Plan of Adjustment also contemplates a mechanism whereby retirees subject to the aforementioned reduction in monthly pension benefits may see that reduction partially, or even fully, restored in cases where the Commonwealth materially exceeds the financial projections in the Fiscal Plan

that is certified by the Oversight Board and is in effect as of the Effective Date of the Plan of Adjustment," *see* #17628-8-page-279-to-280-of-309. The 5/27/2020 fiscal plan projects lower surpluses or greater deficits than the 4/23/2021 fiscal plan, and thus the potential added payments and benefits to public employees and retirees from supposed outperformance of the 5/27/2020 fiscal plan numbers are staggering. Compare 2020 fiscal plan (Hein Decl. Ex. B) p.40 Ex. 14 with 2021 fiscal plan (Hein Decl. Ex. A) p.43 Ex. 18 (#15988-5-page-41-of-272 with #17628-8-page-44-of-309); #16908-page-15-to-20-of-178. Perhaps FOMB will say it really didn't mean what it said in section 20.2.5, which is phrased in a confusing and contradictory fashion. But in a world where (at least in FOMB's view) the fiscal plan is the unreviewable last word, FOMB will claim it is free in the future – if bondholder claims are released through confirmation – to do whatever it wants without review by this Court or anyone else.

- Because – whatever the base for the calculation – an Excess Cash Surplus number that results in huge multi-billion dollar payments to or for the benefit of public employees is computed before debt service (see 4/23/2021 fiscal plan p.43 & Ex. 18 (#17628-8-page-44-of-309); #17628-6-page-30-of-35 & n.2; #17628-7-page-42-of-65 & n.2), it is very possible that these multi-billion dollar payouts to public employees and retirees will jeopardize Puerto Rico's ability to pay debt service even on the New GO Bonds.

Protections against unilateral decisions by FOMB to unfairly treat bondholders who have a first claim priority under Puerto Rico's Constitution include the requirement in §2141(b)(1)(N) that "lawful priorities and liens … be respected." Any argument that §2126(e) divests the Court of jurisdiction to determine whether §2141(b)(1)(N) has been complied with, even at plan confirmation, ignores §2166(a)'s jurisdictional grant and §2174's requirement for judicial confirmation, discussed in Point II.A above. The House Report's explanation ("ensured lawful priorities and liens…will be respected") underscores that, at plan confirmation, courts can (and should) remedy FOMB's disregard of §2141(b)(1)(N).

C. The unreliability and result-oriented nature of FOMB's fiscal plans underscore why, at the Plan confirmation stage, the Court can (and must) exercise the jurisdiction granted to it under §2166(a) and determine whether FOMB's proffered proof – including its fiscal plans – meets FOMB's burden to prove an entitlement to confirmation of a Plan that releases GO and PBA bondholder claims against a debtor FOMB represents.

As discussed in Points II.A and B, the law requires the Court to assess whether the requirements of §2174(b) are met independent of what FOMB seeks to dictate through a fiscal plan or otherwise. That should conclude the legal question before the Court and require denial of FOMB's motion. But, while not necessary to reach to deny FOMB's motion, several examples of the unreliability and result-oriented nature of FOMB's fiscal plans are instructive and underscore why FOMB cannot be permitted to dictate alterations of rights (much less alternation of Constitutional rights) at the Plan confirmation stage based on a supposedly unreviewable fiscal plan dictated by FOMB.

1. Unsupported data on key metrics, such as population, inconsistent with actual U.S. census data and estimates.

There is a significant inconsistency between official U.S. Census population data for Puerto Rico and the population data in the 4/23/2021 fiscal plan that underlies the financial and economic projections used to rationalize why claims of GO and PBA bondholders should be released without being paid in full. The 4/23/2021 fiscal plan asserts FY2020 population was 3,030,000, and in a steady decline, to 2,928,000 in the current fiscal year (FY2022), going down to 2,764,000 in four years (FY2026), and continuously declining thereafter with a 33% drop by FY2051 (Hein Decl. Ex. A, #17628-8-page-42-to-43-of-309 & Ex.17 + note on Ex.17). The 4/23/2021 fiscal plan population forecasts are across the board even somewhat lower than those in the 5/27/2020 plan. *Compare* 5/27/2020 plan (Hein Decl. Ex. B, #15988-5-page-39-of-272 & Ex. 13).

By contrast, the latest U.S. census population numbers are markedly higher. Thus, per the U.S. census, Puerto Rico's population on 4/1/2020 (in fiscal 2020) was an actual 3,285,874, over 8.4% higher than the 2020 FY population assumed in the fiscal plan. Whereas the fiscal plan shows a steady decline year after year, the U.S. census actual count as of 4/1/2020 was up

2.89% from the Census Bureau's 7/1/2019 estimate of 3,193,694. Hein Ex. C; https://www.census.gov/quickfacts/pr.

The discrepancy between FOMB's fiscal plan and U.S. Census population data highlights the perverse consequences of accepting FOMB's position that there is no jurisdiction – even at the confirmation stage – to question its fiscal plans: Per FOMB, FOMB can craft the forecasts on which its fiscal plan is based using population data that is materially lower than the U.S. Census actual counts and estimates. Yet, per FOMB, this Court must ignore that the U.S. Census actually counted and found 3,285,874 people as of 4/1/2020 (in fiscal 2020), ***up*** 2.89% from its 2019 estimate. Per FOMB, this Court must ignore the U.S. Census count because FOMB – whose methodology is undisclosed, see Hein Decl. Ex. A, 4/23/2021 fiscal plan #17628-8-page-42-to-43,301-of-309, but presumably is ***not*** based on actually counting people – declares that the Puerto Rico population is in steady decline, from only 3,030,000 in fiscal 2020 on its way down to 2,928,000 in fiscal 2022.

2. FOMB's underestimation of revenues

FOMB's 5/27/2020 fiscal plan projected – for FY2021, set to begin a month later – $20.900 billion in revenues (including general fund revenues of $9.223 billion), $20.566 billion in expenses, $0.1 billion in "measures", and a post-"measures" surplus of $0.440 billion. (Hein Decl. Ex. B, pp.40-41 Ex. 14-15; #15988-5-page-41-to-42-of-272). Now, a year later, we know that actual FY2021 revenues were $25.659 billion (24.7% greater than FOMB's estimates), including general fund revenues of $12.474 billion (35.2% greater), $21.689 billion in expenses, and $3.970 billion net operating cash flow. *See* 6-30-2021 TSA cash flow report (Hein Decl. Ex. D, p.9).

One may assume, arguendo, that conservative forecasting could make sense for purposes of trying to control the proclivities of Puerto Rico politicians to overspend. But in the context of confirmation, it is wholly inappropriate to cut off bondholders' rights to full payment of principal and interest and release Commonwealth from its constitutional obligations under its "first claim" priority debt based on fiscal plan projections that have been wrong in the past. In fact, in fiscal

2021, Commonwealth had $3.530 billion more capacity to meet its obligations than FOMB forecast on 5/27/2020 ($3.970 billion - $0.440 billion).

3. FOMB's assumption that Medicaid expenses will increase dramatically but federal funding will fall off a cliff

The 4/23/2021 fiscal plan shows Commonwealth Medicaid expenditures increasing from $1.968 billion in FY2021 to $2.974 billion (#17628-8-page-53-of-309), yet federal Medicaid funding is projected to drop from $2.46 billion in FY2021 to $0.468 billion in FY2023 and $0.519 billion in FY2026 (#17628-8-page-48-of-309). The fiscal plan assumes that federal funding will drop off a cliff, even though (i) Puerto Rico has received "increased levels of federal reimbursement" since at least 2011 (#17628-8-page-47-to-48-of-309), and (ii) based on public statements, everybody from leaders of both parties in Congress to Puerto Rican Government officials believe there will be significant increases in federal Medicaid funding for 2022 and future years. *E.g.* Hein Decl. Exs. E, F, G, H, I.

In effect, FOMB assumes (as a given) massive continued, and increased, Medicaid expense, but does not factor in the corresponding increased federal Medicaid funding to pay for this massive spending, and thus assumes the Commonwealth General Fund will bear virtually all of these massive Medicaid expenditures that everyone expects the federal government to support. **A more realistic assumption** – that federal funding would at least keep pace with the Medicaid expenses requiring such federal funding – **would result in a net increase of $2.5 to $3.0 billion per year in Puerto Rico's ability to meet its obligations.** One may assume, arguendo, that for purposes of controlling the impulses of Puerto Rico politicians, it may make sense to wait until Congress actually approves the expected added Medicaid funding – as it has for many past years – before accounting for it in an annual fiscal plan. However, a fiscal plan that significantly understates Commonwealth's capacity to pay its obligations cannot be an appropriate basis for releasing Commonwealth from the claims of GO holders to full payment of principal and interest.

4. Commonwealth has failed to timely issue current audited financial statements, but it is apparent from statements issued to date that current audited financial statements would show that Commonwealth has the resources to pay all principal and interest due on its GO and PBA debt.

One objective of PROMESA was to ensure that Commonwealth would issue timely audited financial statements. A statutory prerequisite to FOMB issuing a restructuring certification is its determination that Puerto Rico "has . . . adopted procedures necessary to deliver timely audited financial statements." 48 U.S.C. §2146(a)(2)(A).

At the time Puerto Rico was selling bonds, Puerto Rico's audited financials were generally timely. Its fiscal 2011 audited financials were issued 4/27/2012, about 302 days after fiscal year end. #16908-page-136-of-178. The fiscal 2013 audited financials were issued within a year (on 6/30/2014). #16908-page-148-of-178. It was only after Puerto Rico in 2015 sought to avoid payment of its Constitutional "first claim" priority debt that Puerto Rico became seriously delinquent in issuing its financials.

Commonwealth's delays in providing audited financial statements became markedly worse after PROMESA was enacted and FOMB was installed. The "latest" audited financial statement, for the year ended June 30, 2018, was not issued until June 30, 2021, 1,096 days (three years) after the fiscal year end. (#17628-14-page-12-of-471; Hein Decl. Ex. J) The failure to produce timely audited financials is itself sufficient grounds to refuse to release Commonwealth from claims of its "first claim" GO and PBA bondholders.

The belatedly-issued FY 2018 audited financials do show that Commonwealth has the cash on hand right now to pay all principal and interest due to date on its "first claim" priority GO and PBA debt, and have billions of dollars left over. Per the audited financials, as of 5/31/2021 the total past-due Commonwealth and PBA principal and interest was $6.792 billion. (#17628-14-page-107-of-471 note 3(d)). Yet Commonwealth currently has $0.702 billion of cash set aside specifically to pay GO debt, and an additional $11.35 billion of unrestricted cash that under Puerto Rico's Constitution can and should be used for this purpose. Hein Ex. K, L.

These amounts are just part of the over $25.335 billion in cash Commonwealth currently holds. Hein Decl. Ex. K p.4.

I have repeatedly complained about FOMB's insistence on proceeding with plan confirmation even while Commonwealth remains seriously delinquent in issuing audited financial statements (e.g., #16908-page-32-to-33-of-178), and as of this date we are still waiting for past-due certified financials for fiscal 2019 and 2020. FOMB and its represented debtor, Commonwealth, cannot properly rely upon an assertedly unreviewable fiscal plan as a substitute for current audited financials and as a justification for releasing Commonwealth's Constitutional "first claim" priority debt notwithstanding Commonwealth literally having more than enough cash in the bank to pay all principal and interest currently due on outstanding GO and Commonwealth guaranteed bonds.

* * * *

As noted, the day after filing the subject motion, FOMB advised Puerto Rico officials that it would be revising the fiscal plan – with the new fiscal plan expected to be certified the day ***after*** the deadline for plan objections. Hein Ex. N. It is not known (at least by me) what the effect of that new fiscal plan may be, and whether new changes will be made in the plan of adjustment. Perhaps FOMB will address some of the issues that have been raised to date with the 4/23/2021 fiscal plan or perhaps FOMB's future changes to the fiscal plan and plan of adjustment will just raise more questions. But, respectfully, what is clear is that this Court should not be issuing a ruling at the in limine stage pre-determining what can be challenged at the confirmation hearing.

CONCLUSION AND RELIEF REQUESTED

FOMB's motion in limine should be denied. The issues FOMB raises in its motion should be addressed in connection with plan confirmation.

Furthermore, in light of FOMB's apparent intent to modify both the fiscal plan and the plan of adjustment, the deadlines for voting and for filing oppositions to confirmation should be

reset to new dates – following any modifications in the plan of adjustment and/or fiscal plan – so the plan of adjustment that is to be voted upon, and to which objections may be filed, as well as the fiscal plan provided in connection with plan confirmation disclosures, are disclosed and provided to bondholders before, as opposed to only after, the deadlines for voting and objection.

September 21, 2021

Respectfully Submitted,

/s/ Peter C. Hein
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917-539-8487
petercheinsr@gmail.com
Claim 10696 and 174229
GO Bonds: 500,000 par amount, plus
unpaid interest to date
[5 separate CUSIPS: 74514LVX2
74514LWA1
74514LWM5
74514LWZ6
74514LB63]
PBA Bonds: 200,000 par amount, plus
unpaid interest to date
[CUSIP: 745235M24]

Certificate of Service

I, Peter C. Hein, certify that I have caused the foregoing "Response and Objection to Debtors' Motion in limine" to be served via the Court's CM/ECF system.

September 21, 2021

/s/ Peter C. Hein
Peter C. Hein

UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO

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In re: THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO, as representative of THE COMMONWEALTH OF PUERTO RICO, et al., Debtors.	PROMESA Title III No. 17 BK 3283-LTS (Jointly Administered)

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[Accompanying Response to Docket #18116]

DECLARATION OF PETER C. HEIN ACCOMPANYING RESPONSE AND OBJECTION OF INDIVIDUAL BONDHOLDER TO DEBTORS' MOTION IN LIMINE IN RESPECT OF EVIDENCE CONCERNING WHETHER THE PROPOSED PLAN OF ADJUSTMENT IS CONSISTENT WITH THE CERTIFIED FISCAL PLAN

Pursuant to 28 U.S.C. §1746, I declare under penalty of perjury that the following statements are true and correct to the best of my knowledge and belief:

1. This declaration attaches certain documents, or excerpts therefrom, referred to in my "Response and Objection of Individual Bondholder to Debtors' Motion in Limine in Respect of Evidence Concerning Whether the Proposed Plan of Adjustment is Consistent with the Certified Fiscal Plan." Excerpts are submitted to facilitate focus on the specific pages pertinent to the point the exhibit supports. When I submit pertinent excerpts, I refer to a public website where the full document can be found or I will provide full copies if requested by the Court. The factual statements in my accompanying "Response and Objection of Individual Bondholder to Debtors' Motion in Limine in Respect of Evidence Concerning Whether the Proposed Plan of Adjustment is Consistent with the Certified Fiscal Plan" are true and correct to the best of my knowledge and belief.

FOMB's certified fiscal plans for Commonwealth

2. Excerpts from FOMB's certified fiscal plans for Commonwealth are attached: Ex. A contains excerpts from the 4/23/2021 certified fiscal plan for Commonwealth. Ex. B contains excerpts from the 5/27/2020 certified fiscal plan for Commonwealth. The full text of the certified fiscal plans is available on the FOMB website: https://oversightboard.pr.gov/fiscal-plans-2/. Specific topics included in the excerpts include those pertinent to the sections of this declaration that follow.

Inconsistency with U.S. Census population counts and estimates

3. There are significant inconsistencies between official U.S. Census population data for Puerto Rico and the 4/23/2021 fiscal plan population data that underlies the financial and economic projections used in the fiscal plan. The 4/23/2021 fiscal plan asserts FY2020 population was 3,030,000, and in a steady decline, to 2,928,000 in the current fiscal year (FY2022),going down to 2,764,000 in four years (FY2026), and continuously declining thereafter with a 33% drop by FY2051. (Page 41-42, Ex. 17) The 4/23/2021 fiscal plan population forecasts are across the board even lower than those in the 5/27/2020 plan. Compare 5/27/2020 plan p.38 Ex. 13.

4. By contrast, the latest U.S. census data shows population numbers that are markedly higher. Thus, per the U.S. census, Puerto Rico's population on 4/1/2020 (in fiscal 2020) was an actual 3,285,874, over 8.4% higher than the 2020 FY population assumed in the 4/23/2021 fiscal plan. Whereas the 4/23/2021 fiscal plan shows a steady decline year after year, the U.S. Census actual count as of 4/1/2020 was up 2.89% from the Census bureau's 7/1/2019 estimate of 3,193,694. See Ex. C, Quick Facts re Puerto Rico, from the United States Census Bureau website; also available at https://www.census.gov/quickfacts/PR.

5. On August 20, 2021 I sought discovery on this subject from both FOMB and AAFAF, and I am still engaged in a meet and confer process with their counsel and awaiting the production of documents to my August 20 requests and follow up requests.

FOMB's underestimation of revenues

6. Attached as Exhibit D is the 6-30-2021 TSA cash flow report (excerpts) that shows on page 9 (page number in lower right corner) the actual fiscal year 2021 revenues (broken down as state collections, federal funds receipts, balance sheet related, total inflows), total outflows (also broken down into certain categories), and net operating cash flow.

7. On August 20, 2021 I sought discovery on this subject from both FOMB and AAFAF and I am still engaged in a meet and confer process with their counsel and awaiting the production of documents to my August 20 request and follow up requests.

FOMB's assumption that Medicaid expenses will increase dramatically but federal funding will fall off a cliff

8. Attached as Exhibit E is a June 1, 2021 Press Release from Puerto Rico Federal Affairs Administration titled "Governor Pierluisi Outlined Plan for State-Like Treatment on Puerto Rico's Medicaid Program".

9. Attached as Exhibit F are excerpts from the "Budget of the U.S. Government" fiscal year 2022. For the full text, go to https://www.govinfo.gov/content/pkg/BUDGET-2022-BUD/pdf/BUDGET-2022-BUD.pdf. Or type into Google "Budget of the U.S. Government Joseph R. Biden Jr. Friday, May 28, 2021".

10. Attached as Ex. G is a 7-29-2021 press release of the Puerto Rico Federal Affairs Administration referencing a "bipartisan agreement reached in the Subcommittee on Health of the House Energy & Commerce Committee that seeks to prevent the Island's forthcoming 'Medicaid cliff.'" and "President Biden's budget proposal, which includes language to provide equal treatment for Puerto Rico in the Medicaid program."

11. Attached as Exhibit H is a 9-15-2021 press release of Puerto Rico Resident Commissioner Jenniffer Gonzalez Colon announcing that funding for the federal Medicaid health program for fiscal 2022 will be at least $2.9 billion. This press release can also be found on line on Representative Gonzalez' website, https://gonzalez-colon.house.gov/media/press-releases/jenniffer-gonz-lez-anuncia-que-medicaid-ya-cuenta-con-los-29-billones-para-el.

12. Attached as Exhibit I is an article from Endi El Nuevodia.com 9-15-2021 "White House confirms Medicaid funding for Puerto Rico to avoid a fiscal cliff in the short term". This article can also be found on line, at https://www.elnuevodia.com/corresponsalias/washington-dc/notas/la-casa-blanca-dice-que-no-sera-necesario-legislar-ahora-la-asignacion-de-medicaid-para-puerto-rico-para-evitar-el-abismo-fiscal/.

13. On August 20, 2021 I sought discovery on this subject from both FOMB and AAFAF, and I am still engaged in a meet and confer process with their counsel and awaiting the production of documents to my August 20 request and follow up requests.

Commonwealth has failed to timely issue current audited financial statements, but it is apparent from the statements issued to date that current audited financial statements would show that Commonwealth has the resources to pay all principal and interest due on its GO and PBA debt.

14. Attached as Exhibit J are excerpts from Commonwealth's fiscal year 2018 audited financial statements that state that, as of 5/31/2021, the total past-due Commonwealth and PBA principal and interest was $6.792 billion ($5.536 billion + $1.256 billion). See also #17628-14-page-107-of-471 note 3(d).

15. Commonwealth currently has over $0.702 billion of cash set aside specifically to pay GO debt, as is evident from the excerpts from the Commonwealth's Summary of Bank Account Balances report dated 8-31-2021 (attached as Exhibit K), page 11 (page number in left right corner) [$556.1 million in the Public Debt Redemption Fund into which revenues from the 1.03% property tax are supposed to be deposited + $146.6 million of revenues "clawed-back" which, if clawed back, are supposed to be used for the payment of GO debt]. The full report is available on the AAFAF website at https://www.aafaf.pr.gov/wp-content/uploads/2e-aafaf-bank-account-balances-gov-pr-instrum-7-30-2021.pdf. (These amounts available to pay GO debt service would have been significantly greater, if Commonwealth's Constitution and statutes had been followed in the past 5+ years.)

16. Commonwealth as of the most recent TSA cash flow statement (as of 9-3-2021) (excerpts attached as Exhibit L) has over $11.35 billion unrestricted cash that under Puerto

Rico's Constitution can and should be used to pay past-due principal and interest on Commonwealth GO and Commonwealth guaranteed "first claim" priority debt. See page 5 (page number in lower right corner). The full report is available on the AAFAF website at https://www.aafaf.pr.gov/wp-content/uploads/fy22-weeklytsacashflow-9-3-21.pdf.

17. Commonwealth's Summary of Bank Account Balances report dated 8-31-2021, page 4 (page number in lower right corner), shows a total of $25.355 billion cash on hand as of 7-30-2021. As noted, excerpts are attached as Exhibit K; the full report is available on the AAFAF website at https://www.aafaf.pr.gov/wp-content/uploads/2e-aafaf-bank-account-balances-gov-pr-instrum-7-30-2021.pdf.

House Report on PROMESA legislation

18. Attached as Exhibit M are excerpts from H.Rep. 114-602 (June 3, 2016), the House Report on the PROMESA legislation.

FOMB correspondence with Puerto Rico Government regarding revisions to fiscal plan

19. Attached as Exhibit N is FOMB's September 15, 2021 letter to Puerto Rico Government officials.

Dated: September 21, 2021

/s/Peter C. Hein
Peter C. Hein

2021 Fiscal Plan for Puerto Rico

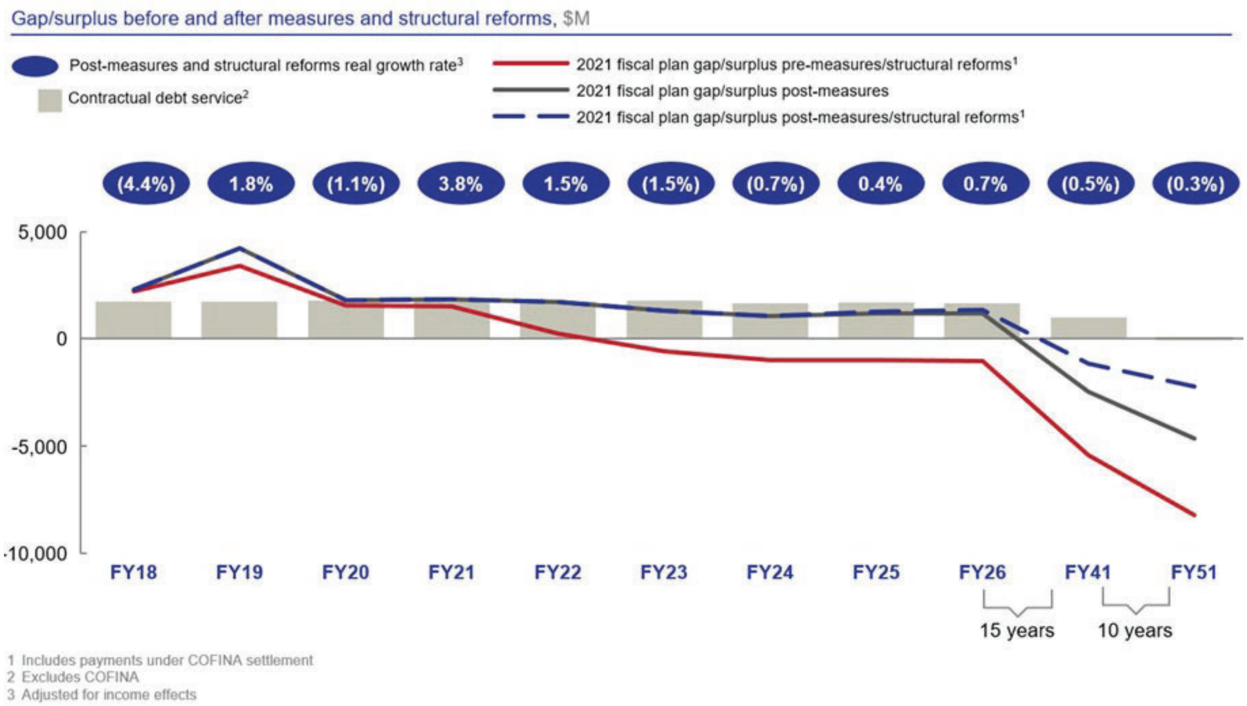
Restoring Growth and Prosperity

As certified by the Financial Oversight and Management Board for Puerto Rico

April 23, 2021

Exhibit A

EXHIBIT 4: 2021 FISCAL PLAN PROJECTED TOTAL SURPLUS BEFORE AND AFTER MEASURES AND STRUCTURAL REFORMS (EXCLUDING DEBT SERVICE)



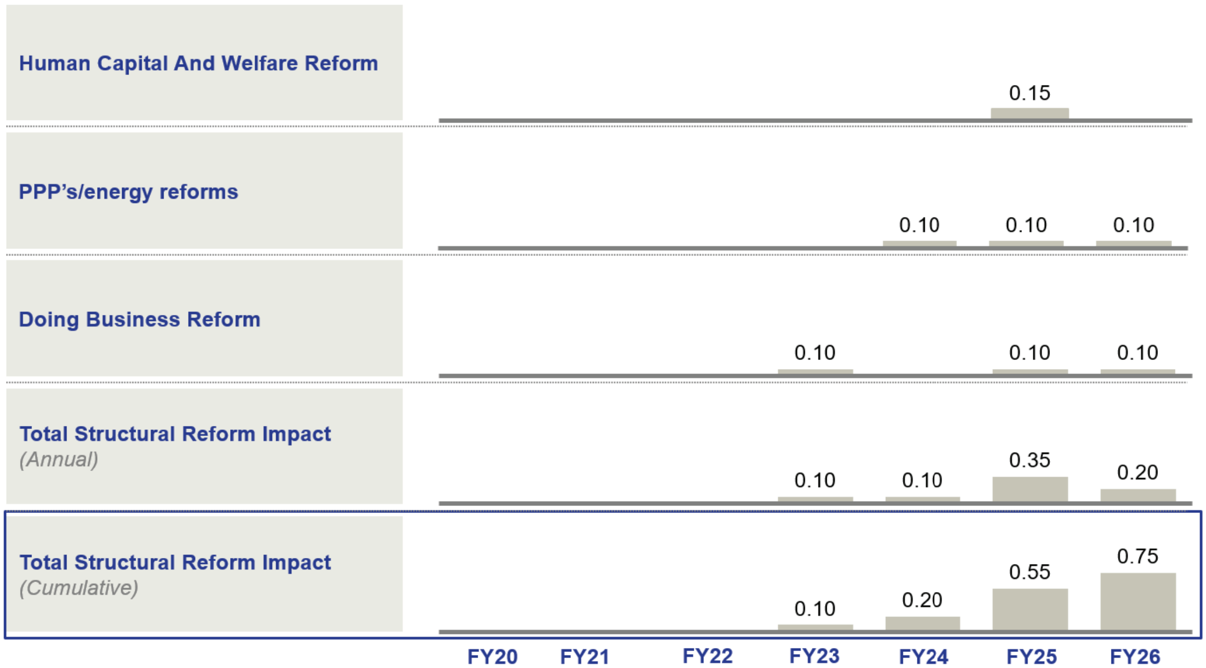
* * *

Though much progress has been made, diligent and focused efforts are needed in the coming years to accelerate momentum and reach a more sustainable path. While natural disasters and the pandemic have been incredibly damaging and disruptive to lives and livelihoods of the residents on the Island, they have been accompanied with over $100 billion in federal relief funding for disaster relief and recovery, and to respond to the COVID-19 pandemic.

In conclusion, this unprecedented level of federal support—which represents over 100% of Puerto Rico's Gross National Product—provides a once in a generation opportunity to build resilient infrastructure, invest in economic growth, improve government services, and rebound from the effect of the pandemic on residents, businesses, and the not-for-profit sector. The investments can also unlock creativity, entrepreneurship, and private sector investment when coupled with the much needed reforms to the business climate outlined in the Fiscal Plan. Finally, the near term support enables a window of opportunity to build a more effective government to serve the people. Taken together, these actions – if fully implemented – can help to stem the demographic outflow, improve quality of life, and return Puerto Rico to growth.

EXHIBIT 16: MACROECONOMIC IMPACT OF STRUCTURAL REFORMS

Structural Reform Effect on GNP, %



By FY2051, K-12 Education reforms add 0.15% cumulative impact, resulting in 0.90% annual impact on GNP

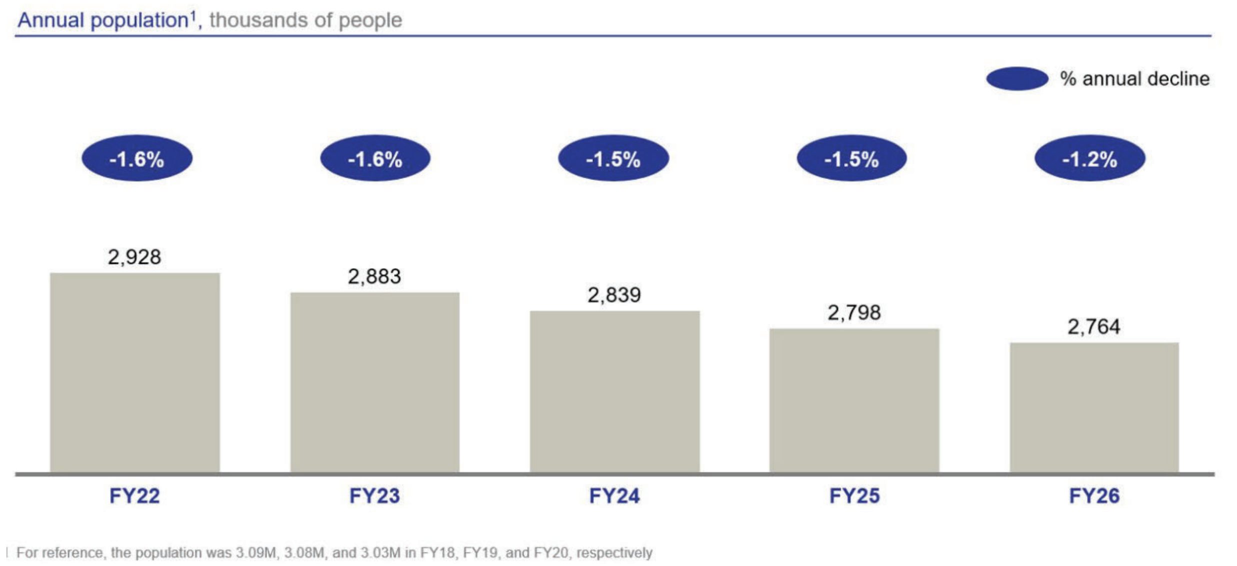
4.5 Population projections

Even before Hurricanes Maria and Irma hit the Island in 2017, Puerto Rico's population had been trending downward by 1-2% every year as residents have left to seek opportunities elsewhere and birth rates declined. In 2016, the U.S. Census Bureau's official forecast, projected a worsening population outlook due in large part to Puerto Rico's rapidly-aging population. This high average age range results from extremely low age-adjusted birth rates and outmigration of younger people. Indeed, in 2016, Puerto Rico began to experience negative natural population change (a higher number of deaths than births). This negative natural change has continued unabated into 2021.

Hurricanes Irma and Maria served to compound the problem, spurring an additional outflow of people just as natural population decline has set in, as many residents lost houses, jobs, and loved ones. While some of these people have returned, the population is still projected to decline over the course of the 2021 Fiscal Plan period and beyond. Further disasters, such as the series of earthquakes experienced in 2020, have not made a swift return to balanced migration any more likely. But while net migration is a larger driver of population change in the short term, this factor is volatile; in the long run, net migration is projected to return to more balanced trends. Meanwhile, natural population change is not guaranteed to rebalance at any point, and births are likely to continue declining, while deaths are projected to slowly rise in the mid-term. COVID-19 has suppressed air traffic between Puerto Rico and the mainland, and thus impacted migration, but this effect is expected to be transitory.

As outlined in *Exhibit 17* below, this 2021 Fiscal Plan projects that by FY2026, there will be almost 10% fewer people living on the Island than in FY2019, and that by FY2051, the drop will grow to 33%.

EXHIBIT 17: PROJECTED POPULATION CHANGE



Chapter 5. Fiscal Plan financial projections (FY2022-FY2026)

In the past several years, Puerto Rico has endured a tumultuous economic climate due to natural disasters and the COVID-19 pandemic. This has had a direct impact on economic growth and, ultimately, on Government revenues. The impact to Puerto Rico has been a real GNP decline in FY2020 followed by a rebound in FY2021 and FY2022 as the full impact of the federal economic support takes hold.

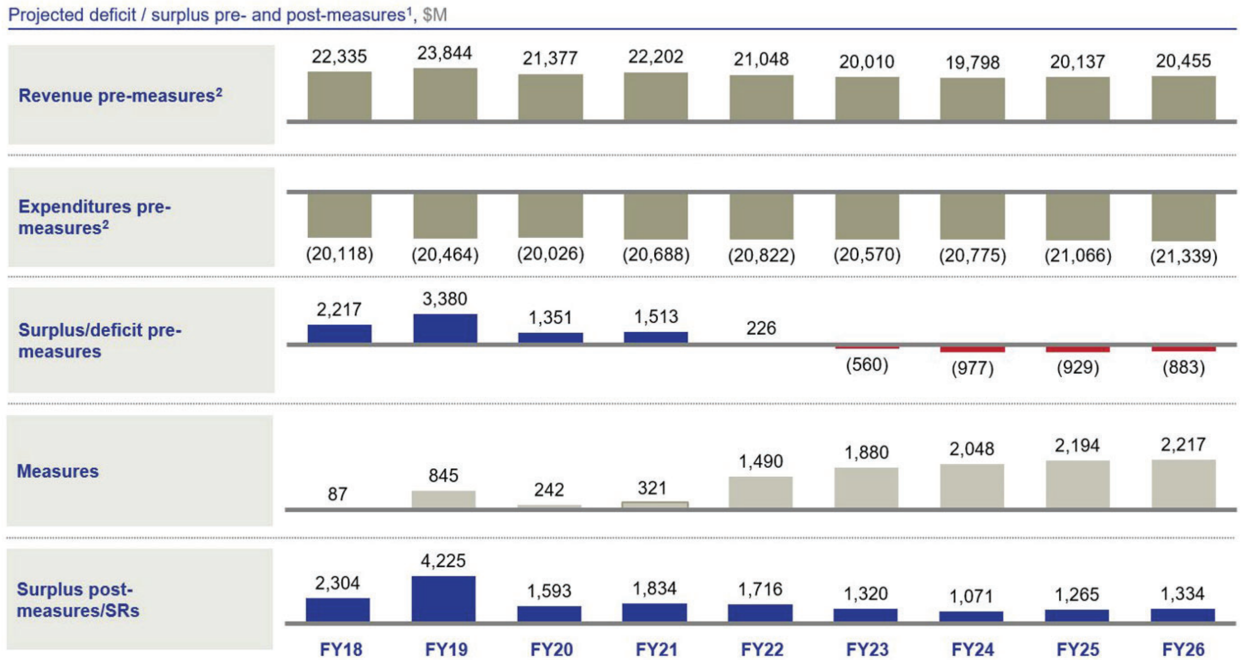
Before measures (i.e., in the "baseline forecast"), there is a pre-contractual debt service deficit starting in FY2023 in the 2021 Fiscal Plan.[27] This deficit gets worse over time, as federal disaster relief funding slows down, Supplemental Medicaid funding phases out, Act 154 and Non-Resident Withholding revenues decline, and healthcare expenditures rise.

The fiscal measures and structural reforms contained in the 2021 Fiscal Plan are the main drivers of a significant portion of the surplus in the 2021 Fiscal Plan. Fiscal measures will drive ~$10.0 billion in savings and extra revenue over FY2022-FY2026 and structural reforms will drive a cumulative 0.90% increase in growth by FY2051 (equal to ~$30.7 billion). However, even after fiscal measures and structural reforms, and before contractual debt service, there is an annual deficit reflected in the projections starting in FY2036. This is, in large part, due to insufficient implementation of structural reforms proposed in previous fiscal plans, including continued highly regulated and restrictive private sector labor market policies that prevent higher growth, a delay in rolling out the NAP work requirement to increase labor force participation rates, and a lack of progress implementing more meaningful ease of doing business reforms to improve the economy's competitiveness and attract greater levels of investment and job creation. *Exhibit 18* illustrates the projected deficit / surplus through FY2026.

Projections for FY2027 onwards are included in *Chapter 6*.

27 The baseline forecast also reflects the pledge of a portion of annual SUT revenues to COFINA creditors as per the terms of the COFINA Title III Plan of Adjustment

EXHIBIT 18: PROJECTED DEFICIT / SURPLUS PRE- AND POST-MEASURES



1 Values presented assume full and timely implementation of structural reforms and reflect GNP uplift due to these reforms
2 Revenues and expenditures excluding gross up adjustments; revenues do not include Earned Income Tax Credit

5.1 Baseline revenue forecast

Major revenue streams (*Exhibit 19*) include non-export sector General Fund revenues (including individual, corporate, and sales and use taxes) and export sector revenues (including Act 154 excise taxes paid by multinationals operating on the Island, and Non-Resident Withholdings), as well as federal funding. The 2021 Fiscal Plan also includes certain Commonwealth revenues that prior to PROMESA the Commonwealth appropriated to certain instrumentalities pursuant to statutes enacted by prior legislatures; the inclusion of these revenues in the 2021 Fiscal Plan is based on the Oversight Board's legal conclusions that (i) such monies are property of the Commonwealth, (ii) each pre-PROMESA statute appropriating or transferring such monies to instrumentalities of the Commonwealth is preempted by PROMESA, (iii) such statutes were enacted by prior legislatures that cannot bind the current legislature, and (iv) in any event, absent PROMESA under the Puerto Rico Constitution, such monies would not be transferred to the instrumentalities while General Obligation debt is not being paid according to its terms.

There is expected to be significant near-term uncertainty in the level of revenue collections, as the post-COVID recovery is constantly evolving. Since the 2020 Fiscal plan, there have been multiple rounds of additional federal economic support, which has contributed to faster than expected economic recovery at the national and local level. As a result, tax collections have been generally higher than forecasted in the 2020 Fiscal Plan. Relative to the 2020 Fiscal Plan, General Fund revenues are expected to be ~14% higher in FY2021 and ~9% higher in FY2022.

EXHIBIT 19: MAJOR REVENUE STREAMS POST MEASURES

Key general fund revenue drivers, post-measures, $M

	FY22	FY23	FY24	FY25	FY26
Personal income tax[1]	2,105	2,115	2,116	2,173	2,219
Corporate income tax	2,054	2,017	1,997	2,069	2,110
Sales and use tax[2]	2,239	2,219	2,214	2,253	2,292
Act 154	1,631	1,447	1,199	1,199	1,199
Non-resident withholdings	349	349	350	354	358
Other general fund revenues[3]	1,829	1,730	1,677	1,699	1,726
FAM portion of SUT	130	130	130	133	136
Incremental excise taxes on off-shore rum	175	141	143	144	146
Petroleum, gasoline, diesel taxes	562	637	636	637	638
Vehicle license fees	134	132	131	132	133
CRIM property tax inflows	140	146	148	150	153
Miscellaneous other	233	215	215	217	219
Total	11,582	11,278	10,957	11,160	11,330

1 Includes expense related to EITC
2 Sales and use tax (SUT) reflects collections after payout of the COFINA settlement
3 'Other' general fund revenues include cigarette, rum, motor vehicles, alcoholic beverages, and other GF taxes; exclude adjustments for revenue gross up

Additional details on the 2021 fiscal plan revenue streams are provided below, with details on the financial projections included in the Appendix. The following sections describe the approach to estimating revenues for key revenue streams.

5.1.1 Non-export sector General Fund revenue projections

Individual income taxes: Individual income taxes are highly concentrated, with 78.2% of revenues coming from the 8.7% of tax returns reporting income above $60,000 in FY2018.[28] The 2021 Fiscal Plan incorporates the expected incremental individual income tax collections associated with disaster relief spending, as well as the performance of individual income tax collections that have been more resilient in FY2021 than forecast in the 2020 Fiscal Plan. The 2021 Fiscal Plan projects that disaster relief spending will continue to contribute to the income tax base, either through mainland workers temporarily working in Puerto Rico or from Puerto Rican residents entering the formal economy as a result of disaster relief projects.

Corporate income taxes: There is also concentration in tax receipts among the largest corporations operating in Puerto Rico (e.g., ~29% of corporate income taxes are paid by 20 corporate taxpayers).[29] Historical aggregated data from Hacienda show that in the aftermath of the 2017 hurricanes, there was an influx of corporate activity spurred by reconstruction funding and mainland-based firms entering the Island's economy. This had led to higher corporate income taxes relative to GNP in FY2018 and FY2019, and this trend was continuing in FY2020 prior to the onset of COVID-19. The 2021 Fiscal Plan incorporates the contribution of disaster relief spending to the corporate tax base into future years. Further, the 2021 Fiscal Plan reflects certain adjustments to corporate income tax revenues attributable to one-time M&A activity, which

28 Hacienda historical reports as of April 2018
29 Ibid.

resulted in a non-recurring $488 million of revenues in FY2020 and ~$39 million in reduced corporate income taxes starting in FY2021, as projected by Hacienda.

Sales and use taxes (SUT): As with corporate and personal income taxes, SUT outperformed relative to GNP in FY2018 and FY2019, likely boosted by the increased economic activity resulting from the post-disaster reconstruction process (including through the replacement of lost inventory) and higher SUT compliance by larger firms less impacted by natural disasters. The 2021 Fiscal Plan incorporates incremental tax collections as disaster relief continues in future years. A portion of SUT collections will also be used to fund COFINA's obligations under its Plan of Adjustment going forward. This portion reaches ~$1 billion annually starting in FY2041.

Partnership income taxes: Act 60-2019 extended an alternative tax election for taxpayers to pay income taxes at the Partnership level at preferential tax rates. This change in tax administration resulted in a new category of revenue collections of ~$205 million[30] for FY2021 (as of February 2021). These payments largely reflect payments that otherwise would have been made by the partners in these entities and therefore would have been reported as personal or corporate income tax. A portion of the incremental collections have been considered non-recurring given the concentration of the payments in a small number of taxpayers and sectors. The 2021 Fiscal Plan forecasts ~$100 million of the increase in collections to be recurring.

Other General Fund revenue (including Motor Vehicles, Alcoholic Beverages, and Cigarettes): Motor vehicle revenue tax receipts surged in FY2018 and this trend continued into FY2021, as residents continued to accelerate motor vehicles purchases in the aftermath of the 2017 hurricanes and during the COVID-19 pandemic as federal stimulus payments reached the Island. The 2021 Fiscal Plan forecasts that elevated purchasing of motor vehicles will continue into FY2022, but purchases then return to historical trends over the following years. In addition, since FY2019 there has been a persistent increase in "other excise tax" collections, as these taxes were migrated to the new Internal Revenue Unified System (SURI by its Spanish acronym) platform. Hacienda has reported that it is challenging within the new platform to properly classify a component of these revenues according to their appropriate excise tax classification (e.g., motor vehicles, alcoholic beverages). Accordingly, the agency has created a suspense account to recognize these collections until the corresponding return is received and reconciled. The Oversight Board has requested corrective action be taken to accurately and in a timely manner recognize revenues in their appropriate revenue accounts to reduce the accumulation of unclassified excise taxes, and better isolate how much of the elevated collections come from re-classified taxes versus improved compliance. The 2021 Fiscal Plan includes an updated forecast of other General Fund tax revenues to reflect the expected continued elevated collections relative to prior year forecasts. The Oversight Board will continue to work with Hacienda to decompose this category of revenue and improve the granularity of future year forecasts.

Export sector revenue projections: Act 154 and Non-Resident Withholding (NRW) tax revenues are concentrated in a small number of multinational corporations. From FY2017 to FY2024, the 2021 Fiscal Plan estimates that Act 154 and NRW revenues will erode due to U.S. federal tax reform (reducing Puerto Rico's attractiveness as a low tax jurisdiction for multinationals), global supply chain diversification, and patent expirations. During FY2021, the Government submitted comments for the U.S. Treasury's consideration in response to the IRS notice of proposed rulemaking REG-101657-20 publication. In addition, the U.S. Treasury has publicly proposed reforms to the global corporate tax regime that could impact Puerto Rico, if enacted. The Oversight Board will closely monitor developments in the event they impact the 2021 Fiscal Plan.

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[30] Does not include deferred taxes from FY2020 collected during FY2021

5.1.2 *Medicaid funding*

On a steady-state basis (i.e., in the absence of supplemental federal legislation), Medicaid costs are funded primarily by the Commonwealth, as there is a cap on available federal funding. Typical annual federal funding streams for the Commonwealth are the following, and are projected based on current law and statutory growth rates:

- **Standard annual federal Medicaid funding.** Although Puerto Rico has a 55% federal medical assistance percentage (FMAP), the amount of annual federal funding received under Section 1108 is capped each year. For FY2022, this funding stream is expected to be capped at ~$403 million, and though the cap grows each year according to the Medical Consumer Price Index for All Urban Consumers (CPI-U), it does not keep pace with healthcare expenditure growth.[31] Each year, ~$100 million of these funds are not available to cover premium expenses, but rather are transferred to the Department of Health to cover disbursements to Federally Qualified Health Centers ("Centros 330" or "FQHC") and Medicaid Program operations.
- **Increases in available Medicaid funding from federal legislation:** Since 2011, Puerto Rico has received temporary relief from rising healthcare costs through increased levels of federal reimbursement made available through the passage of the Affordable Care Act and the Bipartisan Budget Act of 2018. In December 2019, the Further Consolidated Appropriations Act was passed, which provides supplemental federal funding (up to $5.7 billion in total) to Puerto Rico's Medicaid program through September 30, 2021 (i.e., the first quarter of FY2022). In addition, the law raises the FMAP—the portion of Medicaid expenditures that federal funds can cover—from the standard level of 55% to 76% for most populations. Finally, in response to the COVID-19 pandemic, the Families First Coronavirus Response Act was passed in March 2020, further increasing both the available federal funds (adding an additional $183 million) and the FMAP (increased by an additional 6.2% for most populations). The available supplemental federal funds and higher FMAP will both return to standard levels in October 2021 (Q1 FY2022) in the absence of new federal legislation. Accordingly, the Commonwealth will hit a "Medicaid fiscal cliff," whereby it will be responsible for multi-billion-dollar annual healthcare expenditures that had previously been covered by federal funding since 2011. The 2021 Fiscal Plan does not assume future changes in federal legislation for this funding. The 2021 Fiscal Plan ensures that the Commonwealth is fiscally responsible under current law, and factors in the cost of Medicaid going forward in the absence of incremental legislation. To provide healthcare for a substantial part of the population, the Commonwealth must be able to pay and manage these critical costs, which grow faster than inflation, regardless of the future federal legislative environment. In the event that supplemental federal funds become available during any future fiscal year, and depending on the conditions imposed on the federal funds granted, the projected General Fund appropriation for the Puerto Rico Health Insurance Administration (ASES, by its Spanish acronym) would be revised downward.
- **Children's Health Insurance Program (CHIP) funding.** CHIP funding is not subject to a federal funding cap. Without additional legislation, the CHIP matching rate, also known as the Enhanced FMAP or eFMAP, for Puerto Rico is statutorily set at a minimum of 68.5% under Title XXI of the Social Security Act. Post passage of the Affordable Care Act, starting in FFY16, the eFMAP for Puerto Rico was raised to 91.5% through September 30, 2019. Subsequently, the eFMAP increased to 99% through a combination of legislative activity including the HEALTHY KIDS Act and Families First Act. The former expired in September 2020, dropping the eFMAP to 87.5%. The latter will remain in effect through the end of the public health emergency, which is currently extended through the close of calendar year 2021.

[31] According to §1108(g) of the Social Security Act., from 2011 to 2016, the cap grows by the medical component of CPI-U as reported by BLS each year. From FY2011-FY2016, this growth averaged 2.9%. This inflation rate differs from the healthcare inflation index for Medicaid and Medicare used elsewhere in the 2021 Fiscal Plan (4.5% to 5.5% from FY2020-FY2022, decreasing to 4.75% in FY2049). Instead, the medical component of CPI-U includes other factors that lower the inflation rate by approximately 3-5 percentage-points, meaning the increase in the federal funding cap will not keep up with actual increases in expenditures

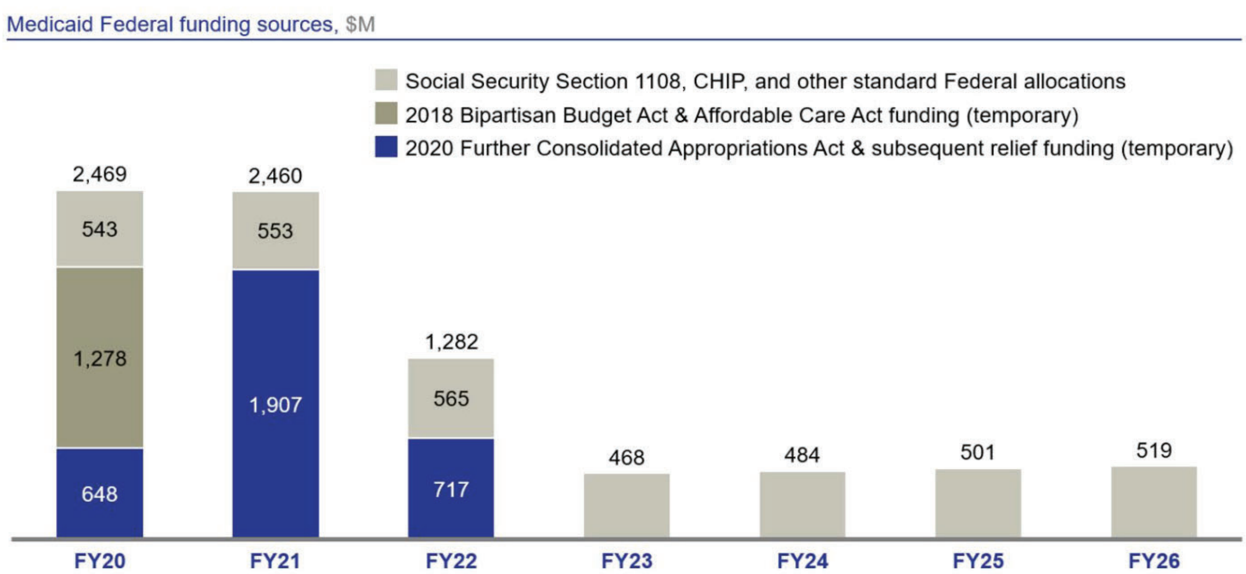
The Families First Act adds approximately 4.3% to the eFMAP. When the emergency health period is ended, the federal cost share is projected to decrease to the 68.5%.[32]

- **Special Revenue Fund revenues from municipalities:** Additional revenue for the Medicaid program comes from municipal intra-governmental transfers. See *Section 5.1.4* below for more information.

- **Special Revenue Funds revenues from prescription drug rebate:** Under the Centers for Medicare and Medicaid Services (CMS) Rule 84 FR 64783, U.S. Territories will be required to join the federal Medicaid Drug Rebate Program (MDRP) on April 1, 2022,[33] unless they apply for and receive a waiver. Currently, Puerto Rico operates its own drug rebate program whereby the Commonwealth negotiates or utilizes pre-negotiated agreements with drug manufacturers to return a portion of cost for prescription drugs (expected to be $264 million in FY2022). These funds enter the Commonwealth budget as Special Revenue Funds and are applied directly against the costs of Medicaid premiums. However, Puerto Rico has expressed its intention to join the MDRP program in the next fiscal year. Puerto Rico's potential entry into the MDRP is expected to yield higher rebate rates from drug manufacturers compared to those the Commonwealth currently has in place. Partly to enable entry into the federal program, the Government has also indicated its intention to update its accounting systems and the methodology by which it reports prescription drug utilization to the Centers for Medicare and Medicaid Services (CMS). In doing so, Puerto Rico will also begin sharing a portion of the rebate revenue with the Federal Government to the extent it reduces the costs eligible for federal matching. The Board is working with the Government to estimate the net financial impact and timing of the shift to the MDRP, including by seeking guidance from CMS on what revenues, if any, must be shared with the Federal Government.

Exhibit 20 outlines expected Medicaid federal fund receipts. After the first quarter of FY2022 (ending September 30, 2021), supplemental federal funding is projected to phase out, in accordance with currently enacted legislation. This "funding cliff" further exacerbates the imperative and urgent need to implement cost-saving measures to reduce long-term Medicaid costs. Medicaid expenditures are discussed in detail in *Chapter 16*.

EXHIBIT 20: BASELINE FEDERAL FUNDS RECEIPT PROJECTIONS



32 MACPAC: "Medicaid and CHIP in the Territories" (April 2020)

33 "Medicaid Program; Covered Outpatient Drug; Further Delay of Inclusion of Territories in Definitions of States and United States." Federal Register, 11 November 2019. Accessed 16 April 2021

5.1.3 Other federal funding

In addition to Medicaid funding, Puerto Rico receives other federal funds on a regular basis. These are not to be confused with disaster relief funds, which are directly tied to Hurricane Maria and earthquake reconstruction activity, or with COVID-19 response and relief funds, which are meant to cover incremental government spending to respond to the global pandemic. These funds cover both social benefits and operational expenditures. In the 2021 Fiscal Plan, these funds have been modeled based on what types of costs they cover (e.g., benefits or operations) as well as statutory formulas that define the size of Puerto Rico's allotment. For example, while Temporary Assistance for Needy Families (TANF) funds are typically pass-through (e.g., none of these funds go to operational costs), some Title I education funds are projected to be used for operational purposes (e.g., teachers' salaries, school supplies for programs for students with special needs, etc.). For the former, federal fund inflows and outflows mirror each other (as benefit needs decline, so do funds). For the latter, though inflows may decline, it does not necessarily mean expenditures decline as well – as expenditures are based on operations, not on benefits formulas, and the Commonwealth may have to cover operational expenditures via the General Fund should they outpace reduced federal funding. Meanwhile, while Head Start funds are allocated from the Federal Government based on the number of children living in poverty, NAP funds are provided through a block grant that is capped. The former, therefore, should change by population, while the latter should only grow with inflation, regardless of population changes.

5.1.4 Special Revenue Funds

Commonwealth agency Special Revenue Fund (SRF) revenues: The Commonwealth collects a significant portion of its revenues through Special Revenue Funds, which are funded from, among other sources, tax revenues transferred by statutes, fees and charges for services by agencies, and dividends from public corporations, and financing proceeds. Government tracking and reporting of these SRF revenues, associated expenses, and resulting surpluses or deficits has historically been incomplete and inconsistent. The baseline level of SRF revenues of Commonwealth agencies (excluding Independently Forecasted Component Units or IFCUs) has been updated in this 2021 Fiscal Plan by agency. The 2021 Fiscal Plan does not further detail SRF by type (special state funds, own revenues and other revenues), as Commonwealth agencies (excluding IFCUs) do not report this level of detail consistently. Future budget and Fiscal Plan processes will aim to further clarify Special Revenue Funds and apply controls to ensure transparency and accountability for these revenues. SRF revenues from fees and collections are also expected to be negatively affected by the COVID-19 pandemic, as agencies face decreased demand for services as a result of the lockdown. In order to achieve greater transparency and controls over SRF, the Government must identify all SRF sources at a granular level, and produce a revenues and expenditures report on a monthly basis, including a profit and loss statement for each Special Revenue Fund.

Independently Forecasted Component Unit (IFCU) revenues: The Commonwealth contains twelve Independently Forecasted Component Units, which range from public corporations (e.g., the State Insurance Fund Corporation) to public hospitals (e.g., the Cardio Center). These entities are mostly funded by Special Revenue Funds and may also receive General Fund appropriations. Through the annual budget process and tracking of actual receipts and expenditures, the Oversight Board has been able to gain more insight into the specific revenue streams for these entities to further refine the IFCU revenue projections. While most IFCU revenues are projected using GNP, given the unique nature of each IFCU, certain revenue streams are grown by other factors, such as inflation, population, or as governed by legislation.

Municipal contributions to PayGo and the Puerto Rico Health Insurance Administration (ASES by its Spanish Acronym): The 2021 Fiscal Plan includes receipts from municipalities to cover retirement and healthcare expenses incurred by the Commonwealth on their behalf. Since the passage of Act 72-1993, ASES has received funding from municipalities for the administration and delivery of the Government Health Plan on their behalf. Similarly,

since the passage of Act 106-2017, municipalities that participate in ERS are financially responsible for PayGo expenditures covered by the Commonwealth. The passage of Act 29-2019 disrupted this model and required the Government to fund municipalities' PayGo and Medicaid costs from the General Fund without receiving reimbursement from the municipalities. However, following legal proceedings initiated by the Oversight Board challenging the validity of Act 29-2019 under PROMESA, the Title III court ruled that Act 29-2019 violated PROMESA and nullified the law, thereby reinstating the municipalities' obligation to cover PayGo and healthcare payments for their employees. As a result of this ruling, the Commonwealth is entitled to seek reimbursement for prior payments made under Act 29-2019 and is empowered to act if these contributions are not received (e.g., to withhold payments for utilities, appropriations). The effective date of the court's ruling was delayed to May 7, 2020 to allow for the parties to discuss potential solutions to the financial challenges faced by municipalities, particularly in light of the COVID-19 pandemic. Accordingly, the 2021 Fiscal Plan assumes that municipalities fund their respective contributions for PayGo and healthcare expenditures going forward. In calculating municipalities' healthcare expenditures, however, the 2021 Fiscal Plan does take into account the incremental federal funding support in FY2021 and FY2022 made available through the 2020 Further Consolidated Appropriations Act. Given that this funding stream expires in FY2022, the 2021 Fiscal Plan assumes that contributions from municipalities thereafter will return to previous levels, but the Oversight Board will utilize the same approach in future years if additional federal funding is again provided.

Public Corporation PayGo receipts: The 2021 Fiscal Plan includes receipts from public corporations (e.g., PRASA) that participate in the Employee Retirement System (ERS) to cover PayGo expenditures covered by the Commonwealth. The Commonwealth shall be reimbursed for these payments and will act if these contributions are not received (e.g., will withhold payments for utilities).

FAM: The Municipal Administration Fund (FAM) collects 0.5% of the SUT which is distributed into three funds: (1) 0.2% to the Municipal Development Fund; (2) 0.2% to the Municipal Redemption Fund; and (3) 0.1% to the Municipal Improvement Fund (referred to as the FMM). Pursuant to Section 4050.09 of Act 1-2011, the FMM are to be distributed through annual legislation and appropriated for select capital works and improvement projects for the municipalities (e.g., public housing, schools). The legislature passes resolutions each year to allocate the FMM. These resolutions must be consistent with the 2021 Fiscal Plan and the applicable special revenue funds included in the Certified Budget.

5.1.5 Gross-up for tax credits

Gross-up of revenues to reflect potential revenues without payment of tax incentives: In addition to offering preferential tax rates, tax exemptions, tax abatements, and cash grants, the Government of Puerto Rico provides hundreds of millions of dollars in tax credits to corporations and individuals each year. Some of these tax credits function as entitlement programs: any business that meets the requirements set forth in law is entitled to the benefit. Other tax credits give government officials considerable discretion on which projects will receive incentives. Many of these tax credits are intended to pursue certain policy goals such as stimulating employment, stimulating economic activity and economic development, encouraging investment, and protecting local industries. Unlike traditional expenditures, however, tax credits are not incurred in a transparent fashion, and, with only a few exceptions, are currently uncapped by any aggregate amount of benefits conveyed. The issuance of tax credits also tends to be done in an ad hoc manner, with unclear economic justification for the costs incurred and without monitoring of the goals described above (i.e., how many jobs in any particular year were created). This leads to an unpredictable, and potentially costly, foregone revenue stream each year.

Uncapped and unpredictable issuance of tax credits can have a materially negative fiscal impact. Several states have faced challenges with unexpected levels of expense from tax

expenditures, such as Michigan (the Michigan Economic Growth Authority tax credits), Louisiana (tax credit for horizontal natural gas drilling), and New York ("brownfields" tax credits). The examples from these states are not uncommon and they reinforce the uncertainty and risk associated with the establishment of tax credits.

Policy makers in Puerto Rico must understand both the budget implications of current and proposed tax expenditures and should manage the size of tax incentives by setting limits on their annual cost and eliminating tax credits with negative returns. The issuance of reliable cost estimates, including a detailed analysis of the budget implications from each tax incentive and annual cost controls will help Puerto Rico avoid unexpected negative outcomes. Otherwise, the Government will remain powerless to manage the cost of these incentives and keep the incentives from growing uncontrollably.

Recognizing the importance of this question to the fiscal sustainability of Puerto Rico, the 2021 Fiscal Plan includes a forecast of gross revenues inclusive of the value of tax credits to show the foregone revenue associated with these credits. The 2021 Fiscal Plan includes a forecast of gross revenues based on the historical level of certain tax credits claimed on income tax filings for individual filers, regular corporation filers, and incentive tax filers, as provided by Hacienda. As shown in the period of the report *Exhibit 21*, over nine tax years (2010-2018), tax credits claimed across all tax filers averaged $261 million annually. The 2021 Fiscal Plan recommends all reporting going forward include monthly and quarterly reports as to the gross revenues, tax credits claimed, and the net revenues received for the period of the report.

EXHIBIT 21: TAX CREDITS BY YEAR

Projection, $M	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Regular Corporations	94	48	89	89	140	66	75	82	18
Incentive Corporations	135	147	133	158	116	78	70	56	66
Individuals	59	37	90	69	65	66	61	89	157
Total Tax Credits Claimed	**288**	**232**	**312**	**316**	**321**	**210**	**206**	**227**	**241**
9-Year Average									**261**

SOURCE: Hacienda

The Government must also adopt a transparent limit to the amount of tax credits issued and claimed at an amount below $261 million by, for example, capping the notional amount, restricting the number of companies and individuals that can claim credits annually, including sunset provisions, or inserting time bound clauses upon which each tax credit will expire. This is similar to the approach that other states have taken to limit the use or issuance of tax expenditures, including Arizona, California, Florida, Illinois, Massachusetts, Minnesota, New York, Ohio, and Pennsylvania. This limit is separate and incremental to the cash grants that corporations and individuals also receive, which will be captured in Certified Budgets going forward. Future Fiscal Plans should also be expanded to include limitations on foregone revenues due to preferential tax rates and exemptions, including municipal exemptions.

These forecasts should be maintained and updated by leveraging the work that Hacienda has undertaken to produce and maintain a more comprehensive measurement of tax expenditures over time through the annual Tax Expenditures Report. As discussed in more detail in *Section 17.3.1*, the publication of the initial Tax Expenditures Report in September 2019 provided, for the first time, better visibility into the full scope of tax expenditures being offered, together with a description and approximate cost of each expenditure.

For tax expenditures reporting to maintain relevance and maximize its impact on the policy making process, regular reviews of each tax incentive should be completed to assess whether each incentive is meeting its policy objective (and an assessment of benefits along with costs). This was missing from the inaugural report and detracts from the ability of the report to provide proper context from which to inform budgetary decision-making.

The estimates in the tax expenditures report should also be systematically incorporated into the annual fiscal plan and budget review process. This means they need to be considered in conjunction with consideration of direct spending proposals at the executive review and legislative levels and the agencies responsible for programs.

To achieve the objectives above, the tax expenditure report must be produced annually on a timely and efficient basis. In fact, the publication of the first tax expenditures report, in September 2019, stated the second annual report would be published in March 2020, yet it has not been published. Rationalizing the amount of tax expenditures offered by the Government is smart and prudent fiscal management. This can only be done in a comprehensive way through the production of the annual tax expenditure report on a timely basis.

The Government has also taken initial steps to provide transparency around, and control these expenditures through its proposed reforms to the Incentives Code. By targeting a limit on the amount of tax expenditures that can be spent each year, the Government would retain control over the cost and enable public debate about the value of this type of spending in light of the various needs on the Island.

5.1.6 Gross-up for COFIM receipts

The Municipal Finance Corporation (COFIM, by its Spanish acronym) is the public corporation that collects the 1% Municipal SUT established by law for certain municipalities. The 2021 Fiscal Plan includes projections of this 1% revenue stream, along with exactly offsetting expenses. COFIM is not an entity that receives appropriations from the General Fund, but rather relies solely on municipal SUT.

5.2 Baseline expenditure forecast

The trend of **"baseline expenditures"** (or, the forecast of projected expenditures assuming no measures and structural reforms), is summarized in *Exhibit 22*.

EXHIBIT 22: MAJOR OPERATING EXPENDITURE CATEGORIES PRE-MEASURES

Key baseline expenditure drivers (pre-measures), $M

	FY22	FY23	FY24	FY25	FY26
Payroll (General Fund)	3,134	3,179	3,228	3,279	3,330
Operating expenditures (General Fund)	1,964	1,893	1,933	1,965	1,990
CW appropriations	1,193	1,179	1,125	1,142	1,128
Commonwealth Medicaid expenditures	1,968	2,654	2,754	2,856	2,974
Pension expenditures	2,259	2,237	2,233	2,224	2,215
IFCU & CW SRF Expenditures	2,279	2,297	2,320	2,357	2,400
Federally funded expenditures	5,706	4,935	5,000	5,072	5,150
Other[1]	446	339	300	259	210
Total CW funded operating expenditures[2]	**18,949**	**18,712**	**18,894**	**19,154**	**19,397**

1 Includes Disaster Recovery Cost Match, Restructuring / Title III costs, Social Programs CW funded, Reserve for emergency fund and Budget incentives
2 Does not include capital expenditures, enterprise funds, disbursements to entities outside the 2021 Fiscal Plan, and other non-recurring expenditures

5.2.1 General fund payroll and non-personnel operating expenditures

Payroll expenditures: Despite progress made through the FY2021 budget process, consistent granular payroll data continues to be a challenge for the Government. FY2018 payroll numbers reflect actual expenditures where available and the Certified Budget in cases where actual data was not available (adjusted to reflect reapportionments among agencies). FY2019 was assumed to be equal to FY2018 given the Fiscal Plan Compliance Act, which enacted a payroll freeze except for certain agency-specific adjustments. Beginning in FY2020, base payroll has been assumed to grow by Puerto Rico inflation. As part of the FY2020 and FY2021 budget certification processes, key agencies were analyzed to develop detailed payroll estimates based on agency rosters, actual payroll run rates and anticipated changes to headcount and salaries. Any reduction to baseline payroll expenditure projections from attrition, absenteeism, or workforce reductions is captured through fiscal measures.

Non-personnel operating expenditures: Non-personnel operating expenditures in FY2019 were also assumed to be equal to FY2018 budgeted levels. Thereafter, non-personnel operating expenditures are assumed to grow by Puerto Rico inflation, with select adjustments as necessary. For example, the 2021 Fiscal Plan includes a 10% reduction to FY2022 Special Fund for Economic Development (FEDE, by its Spanish acronym) and Economic Incentive Funds (FIE), Cruise Industry Incentives, Renewable Energy, Export Development, and Corporation for the Development of the Arts, Science and Film Industry of Puerto Rico (CINE) expenditures, an amount which is then taken out of all future years. (In FY2022, these select expenditures reductions are $10 million total.)

5.2.2 Special Revenue Funds

Commonwealth agency Special Revenue Fund (SRF) operational expenditures: The Commonwealth funds a significant portion of its expenses with Special Revenue Funds and previously did not report on these expenses transparently in a consistent manner. Given that SRF

revenues and expenditures are not part of the General Fund for budgeting purposes, they are not included in the General Fund budget resolutions approved by the Legislature. However, the Oversight Board has certified SRF expenditures starting with the FY2019 budget process, with the objective of applying controls and reporting requirements to ensure transparency and accountability for these revenues and expenditures. With data made available by the Commonwealth, the baseline level of SRF expenses of Commonwealth agencies (excluding IFCUs) has been updated and allocated across agencies (by payroll and non-payroll expenditures). Given the mandate of the Office of the CFO to place controls on SRF expenditures, baseline SRF expenses are forecasted to be equal to the estimated revenues in each year before fiscal measures.

Independently Forecasted Component Unit (IFCU) operational expenditures: Most IFCU payroll and non-payroll expenses grow by inflation, with exceptions for certain expense categories (e.g., healthcare costs grow with medical inflation, variable costs that grow in line with revenues).

The baseline expenditures include **municipality and public corporation PayGo, COFIM, and FAM expenditures**, including all the conditions outlined in *Section 5.1.4.*

5.2.3 Other federal funding

Most federal funds received by the Commonwealth are passed through to residents directly in the form of social benefits (e.g., TANF, WIC), but federal funds are also used to cover operating expenditures in many agencies. Expenditures related to pass-through federal funds are set equal to the associated revenue stream. Baseline expenditures related to operating expenditures are set based on the FY2018 federal funds budget reported by the Government (updated in select cases for new information received FY2019-2021) and grow with inflation (and in some cases population). In the case of Community School Program (largely Title I funding), revenues will grow with growth in total federal funding - presumed to track U.S. inflation - but decline with decreasing enrollment, which is the most salient determinant of Puerto Rico's annual allocation. At the same time, the 2021 Fiscal Plan assumes fixed costs associated with providing these services may not decline at the same rate given historical Commonwealth behavior of maintaining infrastructure such as schools and program staff despite population decline. Therefore, the 2021 Fiscal Plan assumes that—without fiscal measures—the General Fund will cover any cost increases that continue despite declining Title I federal support.

5.2.4 Medicaid expenditures

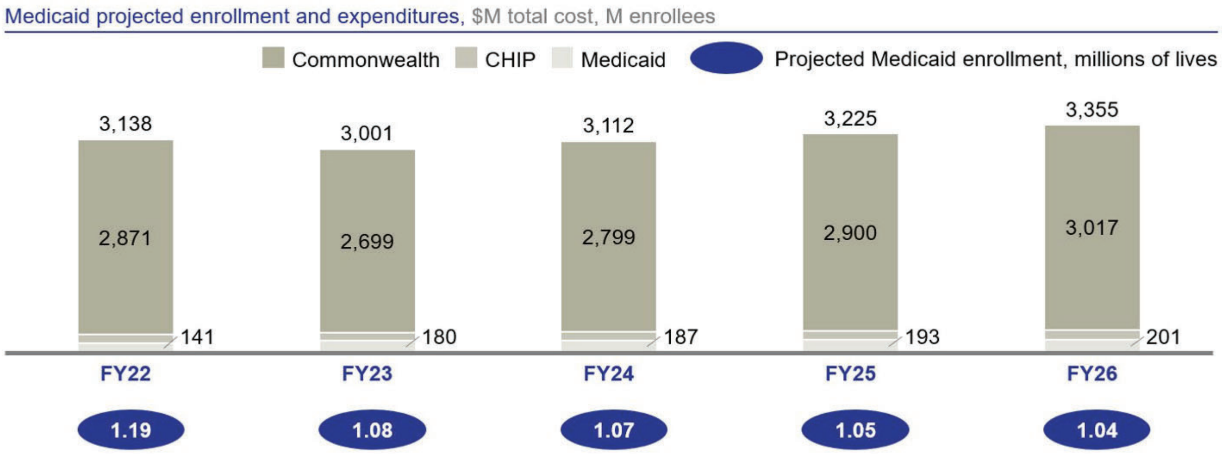
Medicaid costs are projected to reach nearly $3.5 billion annually by FY2026. These costs are primarily driven by premiums, calculated by multiplying the weighted-average cost per member per month (PMPM) by the estimated number of people enrolled in the Medicaid (federal and Commonwealth-qualified), CHIP, and Platino dual-eligible programs. Projections also include other direct health expenditures (e.g., Hepatitis C, HIV, and pulmonary programs) that do not flow through managed care. These costs are exclusive of non-medical administrative costs to ASES and the Department of Health.

PMPM costs are projected to grow at 8.9% in FY2021 as a result of increased healthcare utilization following the pandemic. Relatedly, actual PMPM growth is now projected to have been just 1.6% from FY2019 to FY2020. As healthcare utilization resumes to normal levels, growth rates are expected to return to previous projections (of 5.15%) by FY2025. In the long term, costs increase according to an age-mix-adjusted PMPM growth rate (of 4.75% by FY2051, for example), which reflects a shift to a younger enrollment population.

Enrollment rates are primarily tied to overall population decline on the Island. However, the first half of FY2022 is projected to see an enrollment increase, independent of overall Island population changes. In the first quarter, this change is primarily related to the decision to raise the Puerto Rico Poverty Line (PRPL) through September 30, 2021. Since the PRPL is a partial

determinant of Medicaid eligibility, this increase allowed previously unenrolled residents to enroll during the COVID-19 pandemic. This COVID-19-related increase is projected to persist into the second quarter of FY2022 to a slightly lesser degree, before returning to baseline healthcare population projections by January 1, 2022 (Q2 FY2022). The effects of this increased enrollment during FY2022 can be seen in *Exhibit 23*.

EXHIBIT 23: PROJECTIONS FOR MEDICAID AND CHIP BASELINE PREMIUM EXPENDITURES AND ENROLLMENT (NOT INCLUDING PLATINO)



Note: Only includes Medicaid (CHIP, Commonwealth- and federally-funded). Excludes Platino dual-eligible, as well as non-direct premium costs (e.g., HIV/PDP, Health Insurance Provider Fee, Air Ambulance, MC21 Administrative Fee, Super Utilizers, and Pulmonary).

Other Commonwealth Medicaid expenditures, which include, HIV/PDP, Air Ambulance, MC21 administrative fee, Super Utilizers, and Pulmonary, among others, are projected to grow at the rate of Puerto Rico healthcare inflation. Separate from those costs is the Health Insurance Tax (HIT), calculated each year by the Federal Government and estimated here to be 1.80% of the prior year's total premiums.[34] The Further Consolidated Appropriations Act, 2020 repealed the HIT requirement. Thus, the 2021 Fiscal Plan only reflects the estimated HIT fee anticipated to be required to be paid in FY2021 on FY2020 premium expenditures. Thereafter, the HIT fee is eliminated from projections.

"Platino" dual-eligible program expenditures were estimated using a consistent $10 PMPM over FY2019-FY2024 representing payment for wrap-around services supplementing main Medicare coverage (from FY2024 onwards, this cost grows by the PMPM growth rate). Enrollment is projected to be affected similarly to Medicaid enrollment. "Platino" costs are expected to remain between $29 million and $31 million from FY2021-FY2024, at which point they grow consistently over the remainder of the period.

5.2.5 Commonwealth pension expenditures

Baseline pension costs: Projections rely on demographic and actuarial estimations for Employees' Retirement System (ERS), Teachers' Retirement System (TRS), and Judiciary Retirement System (JRS) populations and benefit obligations. Since FY2018, pension benefits for all plans have been paid on a pay-as-you-go basis. Starting in FY2022, pensions baseline costs (reflecting System 2000 segregation) are projected to decrease progressively from $2.3 billion in FY2022 to $1.2 billion in FY2051, with an average annual cost across the period of $1.9 billion. The 2021 Fiscal Plan baseline pension expenses are ~$1.4 billion lower (FY2022-FY2051) than in the 2020 Fiscal Plan, primarily driven by updates incorporating new census and mortality data.

34 Sec 4003 of Public Law 115-120—Jan. 22, 2018. "Fourth continuing appropriations for Fiscal Year 2018, Federal Register Printing Savings, Healthy kids, health related taxes, and Budgetary effects," at Based on actuarial estimates provided by ASES

5.2.6 Appropriations

Municipalities: Baseline municipal appropriations are projected to remain constant at ~$220 million annually, which represents the FY2018 appropriation level exclusive of a $78 million *one-time* allotment to municipalities made in the aftermath of Hurricanes Irma and Maria.

University of Puerto Rico (UPR): The UPR baseline appropriation is $717 million from FY2019 to FY2023 and grows by inflation starting in FY2024.

Highways and Transportation Authority (HTA): HTA is currently funded through a combination of own revenues, federal funds, and Commonwealth funds (including both a capital appropriation and an operating appropriation). Within the 2020 HTA Fiscal Plan, toll fares are used to cross-subsidize capital and operating expenditures on non-toll roads. The 205(a) letter of January 29, 2021 recommended that HTA be reorganized into a toll road entity, with non-toll roads managed by DTOP and transit assets managed by PRITA. Therefore, consistent with the 205(a) letter recommendation, the 2021 Fiscal Plan increases the HTA operating transfer to cover the full cost of non-toll assets, marking the first step towards the implementation of the Transportation System Reform outlined in *Chapter 11*. The appropriation does not include funding for the HTA emergency reserve, nor does it draw down existing balances. It also assumes toll roads have access to federal funds until reorganization is complete (assumed FY2023), but not thereafter. As a result, over FY2025-FY2051, the 2021 Fiscal Plan includes an average annual operating appropriation of ~$133 million and average capital appropriation of $68 million per year. The Commonwealth operating transfer may be reduced in a proportionate amount should the Federal Highway Administration (FHWA) federal funding for non-toll assets appropriated to HTA increase.

The HTA operating transfer is intended to be used by HTA solely to fund costs associated to non-toll assets and is not available to be used for any other purposes, including funding costs and projects above and beyond those contemplated in HTA's Certified Fiscal Plan.

5.2.7 Other operating and capital expenditures

Utilities: The 2021 Fiscal Plan uses the estimated billings for electric and water costs provided by PREPA and PRASA, respectively on agency level. Estimated water billings from PRASA are projected to grow at the same rate as water rate increases over the period of FY2021-FY2025; thereafter, PRASA billings are projected to grow at water rate increases and then according to inflation. Estimated electric billings from PREPA are projected to grow at the same rate as power rate increases over the period of FY2021-FY2051.

Parametric insurance: The 2021 Fiscal Plan includes an annual investment of ~$35 million to cover the Commonwealth's portion of the annual cost of parametric insurance. The parametric insurance program is supplemental to the existing budgeted premiums for renewing current traditional insurance policies. The following conditions applicable to Commonwealth entities are placed on the requested funding:

- Develop a sophisticated insurance plan with a comprehensive program that considers the available markets, costs, meeting Operations and Maintenance (O&M) requirements, and levels of coverage. This would include conducting a risk assessment; analyzing expected O&M costs on a building by building basis; identifying the types of insurance needed to protect against risk; identifying insurance gaps, selecting the authority needed to develop, implement and enforce the plan; and crafting the financial arrangement structure for funding the plan and paying for losses
- Strategically consider and prioritize options to supplement the existing insurance coverage (including identifying how the Commonwealth will meet flood insurance requirements and considering expanded limits on existing policies, a separate excess insurance policy above current limits, or a Parametric policy and/or Catastrophe ("CAT") bond)

- Engage the Insurance Commissioner on certification criteria

Insurance (PRIMAS): The Commonwealth bears costs related to insurance premiums (e.g., property insurance, liability insurance). Government reporting on these costs has not been transparent or consistent over time (e.g., not all agencies report these costs independently of other operating expenses, reporting is not consolidated across General Fund and Special Revenue Funds). The Government reported that insurance costs increased from FY2018 to FY2020 due to Hurricanes Maria and Irma. Adjustments were made based on agency reported needs for FY2021 and FY2022 (e.g., costs for Department of Housing have been reduced, costs for PRDE and Institute of Puerto Rican Culture have been increased).

Capital expenditures: Centrally-funded General Fund maintenance and capital expenditures of the Commonwealth (excluding PREPA, PRASA, HTA self-funded capital expenditures and one-time transfers) are expected to grow by inflation from a baseline of $337 million FY2022 to FY2040, at which point maintenance capital expenditures increase to $677 million[35] (1.9% of GNP[36]) and growth with GNP, to account for the new level of capital stock the Commonwealth will be responsible for maintaining post-disaster reconstruction (see *Section 4.2* for more information). In FY2022, ~$53 million of the baseline expenses will be appropriated to HTA (as part of the total appropriations), with the remaining ~$284 million for use by the Commonwealth. The 2021 Fiscal Plan includes annual Special Revenue Fund capital expenditures for the Commonwealth agencies (and the Public Buildings Authority) of $6 million for FY2022 and $22 million (based on historical agency needs) for FY2023 onwards.[37]

5.2.8 Reconstruction and restructuring related expenditures

Cost-share for disaster relief funding: Federal funds for FEMA's Public Assistance, Individual Assistance and Hazard Mitigation programs typically require a local match from the entity receiving them (anywhere from 10-25% of funds). In the case of Puerto Rico, the 2021 Fiscal Plan projects that the Commonwealth will need to cover an estimated ~10% of federal Public and Individual Assistance funds that are obligated to them, amounting to $2.6 billion from FY2018-FY2035. (Based on obligation data, instrumentalities are assumed to shoulder a further $1.6 billion in total cost-match expenditures during the same period). A portion of the Commonwealth and instrumentalities' cost-match expenditures are projected to be covered by CDBG funds from FY2020 to FY2035, which amounts to $2.7 billion. As a result, instrumentalities and the Commonwealth are anticipated to need to cover $500 million and $1 billion, respectively, out of pocket.

After accounting for excess funds budgeted for cost share in FY2018- FY2021 (when DRF disbursements were anticipated to be higher), as well as $135 million in unspent cost share funds considered available for future cost share needs, the ultimate out-of-pocket cost share burden for the Commonwealth is $1.2 billion. Moving forward, cost share matching funds are to be used only on approved projects/ requirements under FEMA's Individual Assistance, Public Assistance, and Hazard Mitigation programs. Any unused cost share matching funds in a given fiscal year are to be rolled over the following fiscal year and remain available for use in meeting cost share requirements for approved projects/requirements under FEMA's programs. The restriction of use of cost share matching funds is applicable to funds in the current year as well as any funds rolled over to the subsequent years. The use of these funds must be coordinated with CDBG-DR and CDBG-MIT in meeting cost share requirements.

Restructuring-related costs: Commonwealth restructuring-related expenditures are projected to be $622 million for the period FY2022 to FY2025, and are comprised of all professional fees, including those of the Unsecured Creditors' Committee, the Retiree Committee,

35 Includes General Fund portion of 1.9% of GNP and the HTA Capex appropriation (with the 10% reduction on General Fund unallocated Capex)

36 Corresponds to the state average of capex as percentage of GNP

37 Of this amount, $2 million per year goes to Public Buildings Authority (an IFCU) for recurring needs

the Government (mostly the Puerto Rico Fiscal Agency and Financial Advisory Authority, or AAFAF by its Spanish acronym), and the Oversight Board. The estimate for professional fees in the 2021 Fiscal Plan was developed based on estimates prepared by the Oversight Board and fees provided by the Government as part of the Government's submitted 2021 Fiscal Plan. Fees were also benchmarked versus comparable restructuring situations that yield an average professional-fee-to-funded-debt ratio of 2.08% and median ratio of 2.33% relative to 2.48% projected for the Commonwealth (*Exhibit 24*) In total, for the period from FY2018 to FY2026, the restructuring-related expenditures projection is ~$1.6 billion. Uncertainty stemming from the series of recent natural disasters and ongoing COVID-19 pandemic has resulted in an extended restructuring process contributing to the overall estimate. For some perspective, the City of Detroit restructuring (the largest municipal restructuring prior to the Commonwealth of Puerto Rico) took 17 months (July 2013 to December 2014); while the restructuring of the Commonwealth is now approaching 4 years after experiencing hurricanes, earthquakes and the impact of COVID-19. With respect to the Oversight Board's operating costs, they are forecast to be $75 million per year from FY2022 to FY2026 on a *pre-measures* basis (or $65 million after measures).

EXHIBIT 24: PROJECTED PROFESSIONAL FEES RELATIVE TO OTHER MAJOR RESTRUCTURINGS

Professional fees for restructuring

	Date filed	Outstanding debt, $	Total fees and expenses, $	Fees to funded debt, %
City of Detroit, Michigan	Jul. 2013	6,400,000,000[1]	177,910,000	2.8
Residential Capital, LLC	May. 2012	15,000,000,000	409,321,308	2.7
Sabine Oil & Gas Corp.	Jul. 2015	2,800,000,000	78,553,223	2.8
Caesars Entertainment Operating Company	Jan. 2015	18,000,000,000	258,278,005	1.4
Lehman Brothers Holdings Inc.	Sep. 2008	613,000,000,000	956,957,469	0.2
Lyondell Chemical Company	Jan. 2009	22,000,000,000	205,932,292	0.9
American Airlines	Nov. 2011	11,000,000,000	391,637,858	3.6
Washington Mutual, Inc.	Sep. 2008	8,000,000,000	271,085,213	3.4
Edison Mission Energy	Dec. 2012	5,000,000,000	96,244,628	1.9
Energy Future Holdings Corp.	Apr. 2014	40,000,000,000	450,110,233	1.1
Puerto Rico[2]	**2017**	**64,000,000,000[3]**	**1,584,050,751**	**2.5**

Summary Statistics

Avg.	2.08%
Max	3.56%
Min	0.16%
Med	2.33%

Puerto Rico involves added complexity as the largest public sector restructuring in the history of the United States

1 Excludes pensions and other retirement liabilities
2 Debt amount for Puerto Rico does not include over $50 billion in unfunded pension liabilities.
3 From "Basic Financial Statements and Required Supplementary Information" for fiscal year ended June 30, 2016 prepared by the Puerto Rico Department of the Treasury; inclusive of unaccreted interest of capital appreciation bonds; rounded up from $63.9B for consistency with other cities

Emergency reserve: The purpose of the Emergency Reserve fund is to expedite response activities and, upon request, provide the Commonwealth agencies, public corporations and affected municipalities ("Emergency Reserve Recipients") with capital to quickly begin response activities that exceed their capacity during declared events in Puerto Rico. Starting in FY2019, the Commonwealth must set aside $130 million annually into an emergency reserve that is to total $1.3 billion, or ~2.0% of FY2018 GNP. The methodology supporting this reserve is informed by

guidance provided to other Caribbean islands by the International Monetary Fund in defining an adequate emergency reserve (2-4% of GNP, accumulated at 0.5% per year).[38]

Restrictions placed on these funds must ensure that it is only used in case of an extraordinary event like natural disasters or as otherwise agree with the Board; the Commonwealth can only make disbursements with approval from the Oversight Board. Historically, the Oversight Board has authorized use of the emergency reserve in response to the 2017 hurricanes (Maria and Irma), the 2020 earthquakes impacting the southwestern part of Puerto Rico, and the COVID-19 pandemic. Moving forward, a fund advance will require the following:

- The Governor would need to declare a state of emergency
- AAFAF requests FOMB access to the emergency reserve fund for a finite period
- Once FOMB authorizes access to the emergency reserve funds; OMB would submit to FOMB requests from the Emergency Reserve Recipients to approve amount and usage of funds
- Amounts approved by the FOMB and disbursed to the Emergency Reserve Recipients would need to be replenished not later than the following fiscal year
- Emergency Reserve Recipients that received funds from the emergency reserve fund are required to file with FEMA a Request for Public Assistance (RPA) and Project Worksheet to ensure that any federal reimbursements to Emergency Reserve Recipients are replenished into to the emergency reserve state fund
- Emergency Reserve Recipients are required to update OMB on a quarterly basis on the process of Public Assistance with FEMA
- OMB must provide quarterly reporting to FOMB on the use of authorized funds (see *Chapter 21* for more information)

5.2.9 Expenditure gross-ups

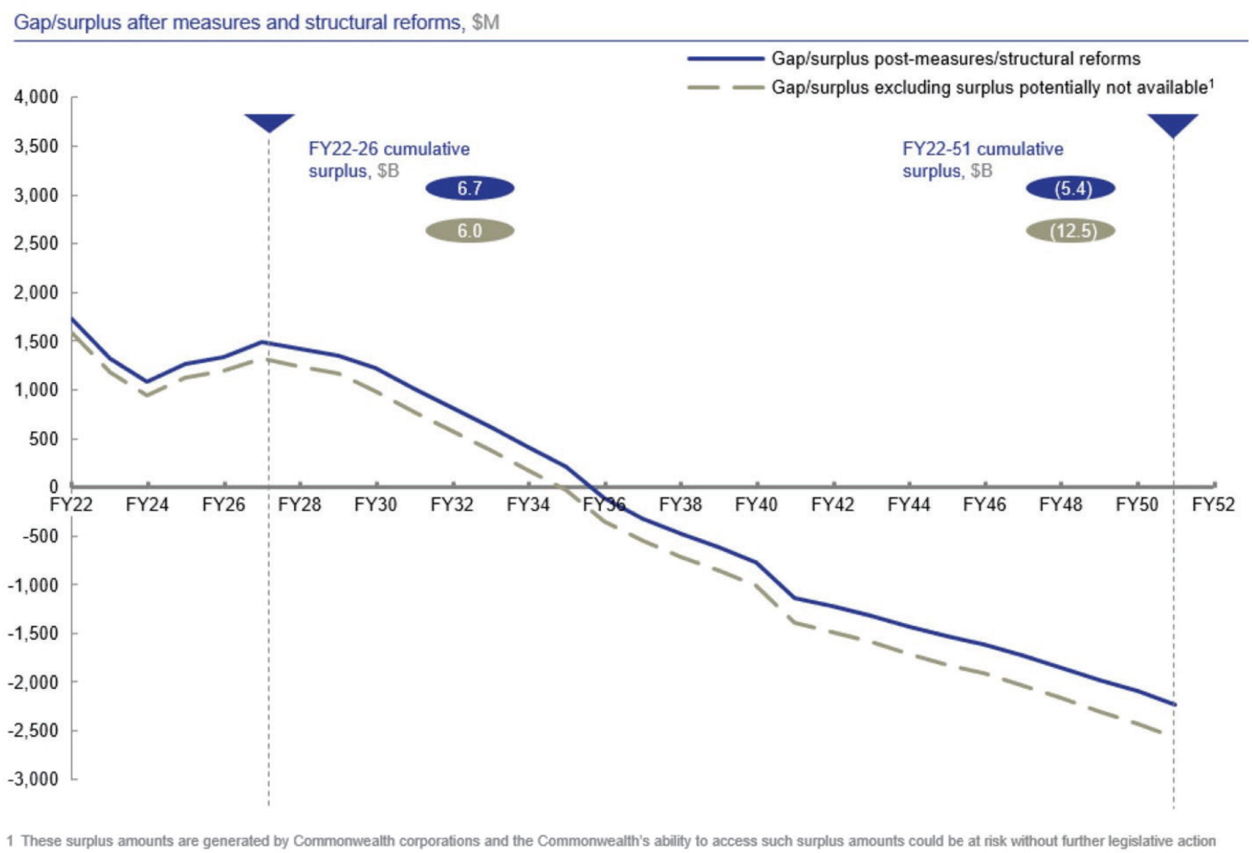
For each of the gross-up revenue items included in *Section 5.1.5* and *Section 5.1.6*, an equivalent expenditure is included in the baseline expense forecast.

5.3 Surplus potentially not available for the Commonwealth

The 2021 Fiscal Plan financial projections show the surplus generated by all entities covered by the Commonwealth Fiscal Plan. However, some of the surplus is generated by Commonwealth public corporations, and the Commonwealth's ability to access such surplus amounts could be problematic without further legislative action. As such, the 2021 Fiscal Plan also represents what the surplus would be if these funds were inaccessible (*Exhibit 25*).

[38] IMF Bahamas Article IV report published March 22, 2018

EXHIBIT 25: SURPLUS POTENTIALLY NOT AVAILABLE FOR COMMONWEALTH



1 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action

Chapter 6. Long-term projections and Debt Sustainability Analysis (DSA)

6.1 Long-term macroeconomic, revenue, and expenditure projections

The 2021 Fiscal Plan projects a post-pandemic recovery in FY2021 and FY2022, followed by limited real growth between FY2023 and FY2029 (average real growth of 0.2% during this period). As disaster relief funding and the spending of COVID-19 federal and local stimulus funds drop off considerably and structural reform growth rates are muted, GNP growth returns to its historical negative trend starting in FY2030. Population is estimated to steadily decline at an average rate of ~1.2% annually, due to a combination of outmigration and demographic factors. Inflation is estimated to settle at a long-term run-rate of 1.5%-1.9% as it is expected to gradually approach to mainland forecasts.

Most revenues are projected to grow with nominal GNP in the long term.[39] This includes SUT, corporate income tax, personal income tax, non-resident withholding not paid by Act 154 entities and most General Fund revenues. Exceptions include:

[39] This methodology is consistent with general IMF forecasting approaches and is intended to capture the overall change in consumption, investment and production within the economy

- **Alcoholic beverages and cigarette-related tax revenues**, which are expected to grow by inflation and population. This assumption is supported both by relatively constant alcohol consumption in growing economies along with the long-term decline in cigarette consumption both in Puerto Rico and the U.S. mainland.

- **Rum excise on offshore shipments,** is expected to grow by U.S. mainland population and is partially driven by the statutory waterfall by which rum excise taxes are paid into the General Fund.

- **Non-resident withholding (NRW) and Act 154 revenues,** which will face declines due to U.S. tax reform, supply chain diversification, and patent expirations. This decline had begun during FY2020, with incremental declines forecasted in each year through FY2024 (~40% cumulative decline versus FY2018 baseline). No further declines are anticipated through FY2027; however, additional loss of Act 154 revenue are expected in FY2028-FY2031, such that FY2031 revenues are projected to be ~60% below baseline. This leads to a steady state of $859 million in annual Act 154 revenues beginning in FY2031. NRW revenues associated with Act 154 taxpayers have also declined. Based on past and current performance, NRW payments are projected at $170 million in FY2022 (~60% below baseline). NRW revenues not related to Act 154 payers continue to grow with nominal GNP.

- **Independently Forecasted Component Units (IFCU) revenues**, which are projected on a line item basis and grow by the same values as in the short-term projections (largely by nominal GNP, with exceptions for those related to healthcare, population, or other factors).

- **Federal fund revenues,** which grow based on historical and statutory appropriations. The standard cap for **Medicaid matching funds** grows by the medical services component of CPI-U and CHIP funding grows proportional to growth of premiums and enrollment. However, several significant sources of federal funding for Medicaid (e.g., the Affordable care act or ACA, the Bipartisan Budget Act of 2018 or BBA, the Further Consolidated Appropriations Act, the Families First Act) are only legislated through the first quarter of FY2022, or through September 30, 2021. **This creates a "fiscal cliff" starting in FY2022 whereby the share of Medicaid funding borne by the Commonwealth increases significantly.** Between FY2023 and FY2051, average annual federal funding for Medicaid is 15.7% of total expenditures (versus 38% in FY2022). While additional federal funding for Medicaid may be provided in the future, the 2021 Fiscal Plan only reflects federal funding provided by currently-enacted legislation.

Just as most revenues grow by GNP, most **expenditures grow by standard inflation** after FY2026. Exceptions include:

- **Medicaid premiums** grow at a faster pace than standard inflation and are instead grown by a PMPM growth rate and population change. The PMPM growth rate is estimated through actuarial analysis of historic utilization trends and projected demographic changes on-Island. Long-term PMPM growth trends (FY2027-FY2051) will be 4.95% on average.

- **Capital expenditures** are anticipated to rise to 1.9% of GNP (in line with the mainland average) by FY2041 to account for an enhanced capital stock needing maintenance after the significant reconstruction efforts in the wake of Hurricanes Maria and Irma. This change in methodology increases the annual Commonwealth average to ~$759 million over FY2041-FY2051, as Puerto Rico must sustain a higher level of maintenance and rely on its own funding for capital investments (rather than disaster relief funding).

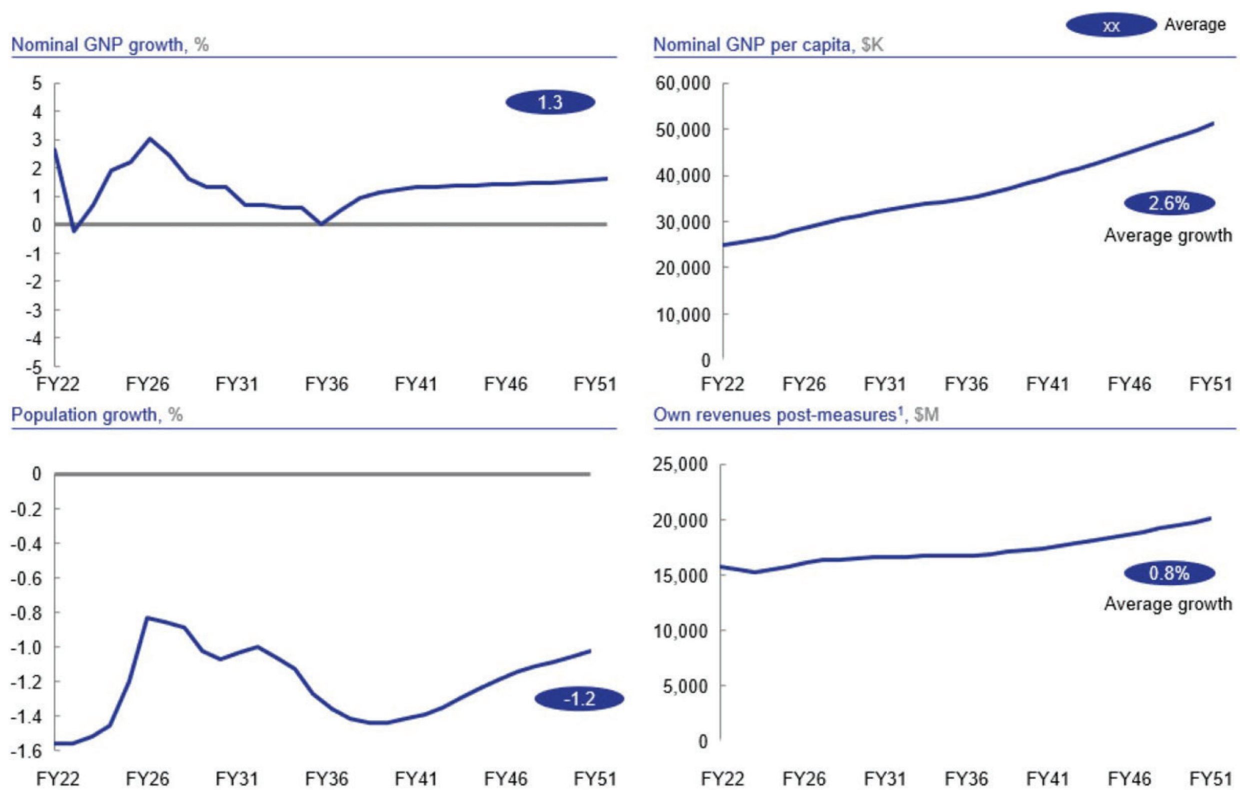
- **Cost match for disaster-related federal funding** reaches an average of ~$28 million from FY2027 to FY2035, after full usage of CDBG-DR funds available for local cost matching. The Commonwealth is not responsible for the portion of funds allocated to instrumentalities (e.g., PREPA, PRASA, HTA, UPR).

- **Independently Forecasted Component Units (IFCU) expenditures** are forecasted on a line item basis. Most grow with standard Puerto Rico inflation with some exceptions, such as healthcare- or claims-related expenditures. Over the long-term, the expenses of some healthcare-related IFCUs (e.g., Cardio) are projected to grow faster than revenues, creating a deficit. This 2021 Fiscal Plan assumes deficits related to healthcare will be funded by the Commonwealth.

- **Fiscal measures** grow by their relevant macroeconomic indicator (e.g., revenues by nominal Puerto Rican GNP, expenditures by Puerto Rican inflation, healthcare measure by health inflation and population).

The long-term macroeconomic and financial projections are shown below. *Exhibit 26* shows the forecasted Nominal GNP, which maintains a positive growth for almost all years (mainly due to an stable and positive inflation), the estimated rate at which population is expected to decline, the growing Nominal GNP per capita that results from the combination of the first two, and the corresponding trend of own revenues. The estimations of all metrics, as well as corresponding projected revenues, expenditures, and fiscal gap or surplus are shown on *Exhibit 27* for selected years. Finally, *Exhibit 28* shows what these projections are with or without structural reforms.

EXHIBIT 26: FY2022-51 FINANCIAL PROJECTIONS



1 Own revenues includes all Commonwealth-collected revenues and excludes all federal transfers and gross up revenues; includes impact of COFINA settlement

EXHIBIT 27: LONG-TERM FISCAL PLAN PROJECTIONS POST-MEASURES AND STRUCTURAL REFORMS

Financial projection detail post-measures and structural reforms, units as labeled

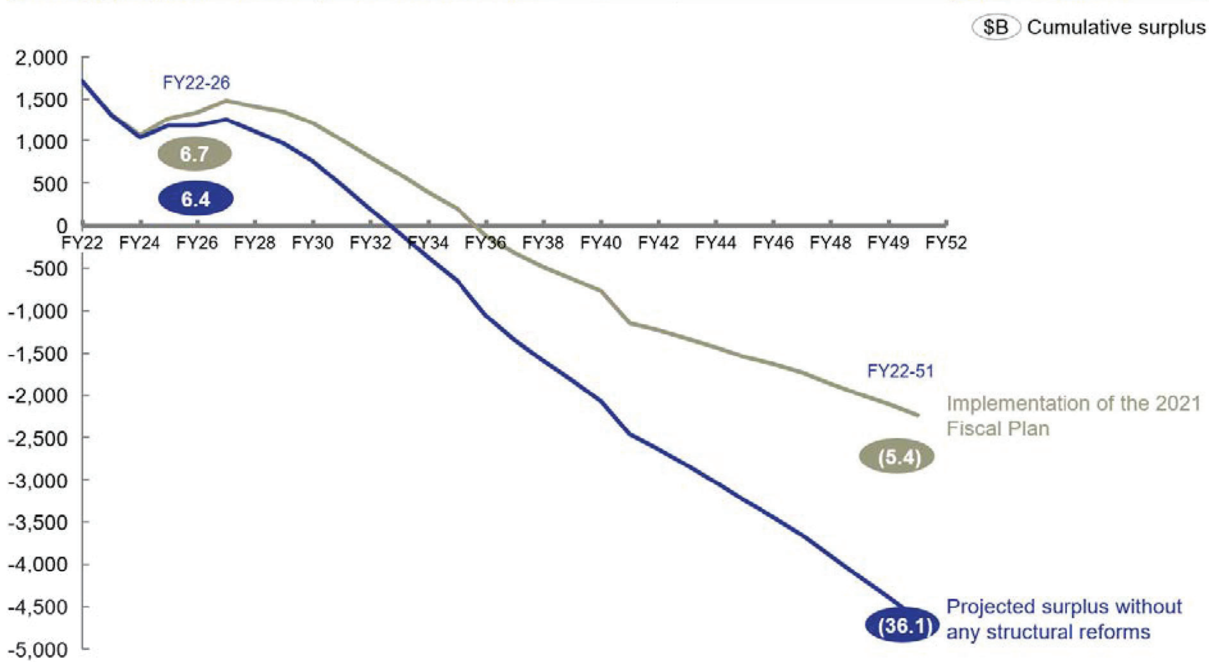
Projection	FY26	FY31	FY36	FY41	FY46	FY51
Population, thousands	2,764	2,637	2,496	2,324	2,178	2,062
Population growth rate, %	-1.2%	-1.1%	-1.3%	-1.4%	-1.2%	-1.0%
Real growth rate[5], %	**0.7%**	**-0.2%**	**-1.5%**	**-0.5%**	**-0.4%**	**-0.3%**
Nominal GNP, $M	**76,759**	**84,555**	**86,769**	**91,303**	**97,809**	**105,594**
Nominal GNP per capita, $	27,770	32,062	34,769	39,284	44,913	51,208
Nominal GNP per capita growth, %	3.4%	2.4%	1.3%	2.8%	2.7%	2.7%
Inflation, %	**1.5%**	**1.5%**	**1.6%**	**1.9%**	**1.9%**	**1.9%**
Disaster funding, $M	5,883	4,546	-	-	-	-
Revenues[1], $M	**20,914**	**22,135**	**22,743**	**24,016**	**25,878**	**28,069**
Commonwealth GF and SRF revenues	15,757	16,545	16,689	17,406	18,627	20,081
Federal transfers[2]	5,158	5,591	6,053	6,610	7,251	7,988
Expenditures[1], $M	**(19,581)**	**(21,126)**	**(22,862)**	**(25,165)**	**(27,505)**	**(30,306)**
Commonwealth-funded expenditures	(14,431)	(15,540)	(16,807)	(18,542)	(20,233)	(22,278)
Federally-funded expenditures	(5,150)	(5,586)	(6,055)	(6,623)	(7,272)	(8,028)
Gap / surplus, $M	**1,334**	**1,009**	**(119)**	**(1,149)**	**(1,627)**	**(2,237)**
Contractual debt service payments[3]	(1,668)	(1,867)	(1,144)	(990)	(163)	(50)
Net gap / surplus, $M	**(334)**	**(858)**	**(1,264)**	**(2,138)**	**(1,790)**	**(2,286)**
Surplus potentially not available[4], $M	*152*	*238*	*234*	*253*	*294*	*339*

1 Revenues and expenditures excluding gross up adjustments; revenues do not include Earned Income Tax Credit
2 Does not include the recently approved additional federal funding for the local EITC extension, since it would be received as a reimbursement
3 Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only and does not represent anticipated future payments on restructured debt. Includes GO, PBA, CCDA, PRIFA, PFC, ERS. The 2021 Fiscal Plan does not assume any predetermined outcome of ongoing litigation with respect to GO bonds
4 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action
5 Adjusted for income effects

EXHIBIT 28: ANNUAL GAP/SURPLUS BASED ON IMPACT OF STRUCTURAL REFORMS

Annual gap/surplus based on impact of structural reforms, $M (nominal)

Scenario (SR growth uptick)



The 2021 Fiscal Plan shows short-term surpluses driven by significant federal relief as well as fiscal measures and structural reforms. Long-term deficits are driven by healthcare costs that outpace GNP growth (even after reforms, in part due to the Medicaid "fiscal cliff"), lack of robust structural reforms, phase out of disaster relief funding, and declining Act 154 revenues.

While the 2021 Fiscal Plan projects deficits from FY2036 onward, the Government will be required to take additional measures that go beyond the FY2022-26 framework of this 2021 Fiscal Plan as the Puerto Rico Constitution requires the Government to operate within a framework of fiscal balance. Accordingly, what follows are a set of options that can be considered to obtain fiscal balance in the out-years. Some of these reforms – which would reduce deficits and therefore make funds available for a variety of potential uses, including investment in the people of Puerto Rico – have been proposed by the Oversight Board, but have not been adopted. The Government must take up these reforms and implement them to realize their benefits.

- **Securing additional permanent federal funding for Medicaid** of ~$1 billion per year (and growing with inflation) is projected to increase the FY2022-51 surplus by ~$20 billion if begun in FY2031 and ~$10 billion if begun in FY2041.
- **Imposing a cap on total healthcare expenditure growth** at 2% above standard inflation is projected to result in savings of ~$14 billion by FY2051 if implemented in FY2031 and ~$2.4 billion if implemented in FY2041.
- **Private sector labor reform,** generating an additional 0.50% GNP growth over two years, by repealing Law 80 of May 30, 1976, which would make Puerto Rico an employment at-will jurisdiction, similar to its principal competitor mainland states, such as Florida. This would reduce the cost of hiring workers on the Island, improving the environment for local businesses and potentially attracting additional investment from the mainland into Puerto Rico. The reform is projected to increase the FY2022-51 surplus by ~$13 billion if implemented in FY2031 and by ~$4 billion if implemented in FY2041.
- **Ease of doing business reform,** generating an additional 0.15% GNP growth, based on instituting trading across borders reform, and repealing restrictive and inefficient regulations, and implementing a comprehensive reform of the Transportation system, similar to the one described in *Chapter 11*, which would contribute to unlock greater impact across all other ease of doing business initiatives, allowing Puerto Rico to better compete for new investments with jurisdictions around the world. The FY2022-51 surplus is projected to increase by ~$4 billion if implemented in FY2031 and by ~$1 billion if implementation takes place in FY2041.
- **Overhaul of the tax system of Puerto Rico** to stimulate growth by lowering the statutory marginal tax rates and broadening the tax base by eliminating many exemptions, deductions, credits, and incentives. This would simplify the tax paying structure and process, improving the business environment and delivering long-term growth benefits up to 0.5% spread over five years. The reform is projected to increase the FY2022-51 surplus by ~$11 billion if implemented in FY2031 and by ~$3 billion if implementation takes place in FY2041.
- **Growing the pharmaceutical and medical devices manufacturing sector** given the unique opportunity for Puerto Rico to be a center of excellence and play a leading role in the national portfolio of locations for expanded domestic manufacturing in this sector. The physical infrastructure, human capital, and regulatory processes are already established and well positioned. Previous analyses published by the Board had shown the potential value on economic growth and employment that this effort could have.

Risks to the long-term projections in the 2021 Fiscal Plan. While the 2021 Fiscal Plan projects that ~$15.2 billion in surplus will be generated through FY2022-FY2035, there are several variables that have a material impact on the long-term financial projections. The extent at which the economic activity will recover from the COVID-19 pandemic impact and the time it will take to return to pre-pandemic levels remain highly uncertain and could prove to be narrower and longer-lasting than anticipated. Moreover, revenues could be compromised through lower growth

generated by delays or failures to implement structural reforms, lower than expected federal funding, and/or less efficient spending on capital than projected. Both revenues and expenditures could be impacted by demographic shifts not yet seen on the Island or other external shocks or natural disasters. Finally, expenditures could be impacted if, once the Oversight Board is terminated, the Government reverses its focus on fiscal discipline and allows Government expenditures to increase.

6.2 Debt Sustainability Analysis (DSA)

The DSA is intended to provide a framework for assessing the long-term capacity of the Government to pay debt service on its bonded debt. Debt levels post-restructuring need to be sustainable over the long-term and consistent with both a minimal risk of default on the restructured debt and a recovery of market access for future new money borrowings for ongoing infrastructure investment. The analysis begins with the 2021 Fiscal Plan and is then informed by the debt sustained by the most appropriate peer group against which to benchmark Puerto Rico. The DSA then applies rating agency metrics for that benchmark group to Puerto Rico to arrive at an assessment of what debt levels are sustainable in light of long-term projections and the peer metrics. Net tax-supported debt is defined as debt payable from statewide taxes and other general resources, net of obligations that are self-supporting from pledged sources other than state taxes or operating resources (such as utility or local government revenues). Prior to the enactment of PROMESA, Puerto Rico had approximately $45 billion in tax-supported debt with a declining economy and no guarantee of sustained federal funding. Net tax-supported debt is comprised of GO, PBA, COFINA, PRIFA, HTA, CCFA, ERS, Public Finance Corporation (PFC), and other intergovernmental loans.

US states as peer comparables: Like U.S. states, Puerto Rico does not control its own currency, has no access to IMF restructuring support programs or similar international sovereign relief funding packages, and traditionally has been reliant on access to the same long-term municipal bond market used by mainland U.S. states to finance their capital needs. Puerto Rico's bonds are also rated by the same rating agency analyst groups that assign ratings to mainland U.S. states, not by foreign sovereign bond rating analysts. For these and other reasons, Puerto Rico has more similarities to U.S. states than to sovereign nations. By virtually any measure tracked by the rating agencies, Puerto Rico's existing debt levels are clear outliers relative to these U.S. state peers (*Exhibit 29*).

Hacienda must take all necessary steps to ascertain proper classification of all excise tax revenues collected through SURI on a timely basis, but not later than December 2021.

17.3 Implementation and enforcement of revenue measures

The following implementation plan details the continuation of the Commonwealth's efforts to improve tax administration.

17.3.1 Creation of a tax expenditure report and regular reporting

In order to provide a critical element of fiscal responsibility and transparency, the Government must regularly produce a tax expenditure report, which includes a comprehensive list of revenue losses attributable to provisions of the Puerto Rican tax code that deviate from the tax structures benchmark law. It is essential to know how much revenue is foregone because of tax incentives and to periodically review such expenditures to ensure they continue to meet their strategic objective. Having a clear and accurate understanding of what the Government spends through tax expenditures is critical to ensuring the expenditures are continuing to contribute to economic growth and opportunity.[324]

In response to the 2019 Fiscal Plan requirements, the Government published its inaugural Tax Expenditure Report in September 2019 for tax expenditures associated with tax year 2017. For the first time in Puerto Rico's history, taxpayers and the Government have better visibility into the full scope of tax expenditures being offered, together with a description and approximate cost of each expenditure. As shown in *Exhibit 123*, the 2017 Tax Expenditures Report provided many key insights into Puerto Rico's use of tax expenditures as an economic development tool, including the fact Puerto Rico issues more than 300 tax incentives with total foregone revenue in excess of $21 billion. This analysis also revealed, for the first time, as illustrated in *Exhibit 124* and *Exhibit 125*, that Puerto Rico offers a far more generous tax incentive program far more generous than virtually every other jurisdiction in the U.S. as a share of the economy or total tax collections.

[324] Tax Policy Center, Urban Institute & Brookings Institution, "State Income Tax Expenditures"

EXHIBIT 123: TAX EXPENDITURES IN PUERTO RICO RELATIVE TO OTHER JURISDICTIONS

Total tax expenditures by count[1]

	Credits	Deductions	Exclusions	Exemptions	Preferential Tax rate	Deferrals	Total
Individual	28	10	8	47	11	-	104
Corporations	62	9	3	35	27	6	142
SUT	-	-	4	23	-	-	27
Excise tax	1	-	16	12	-	-	29
Total	91	19	31	117	38	6	302

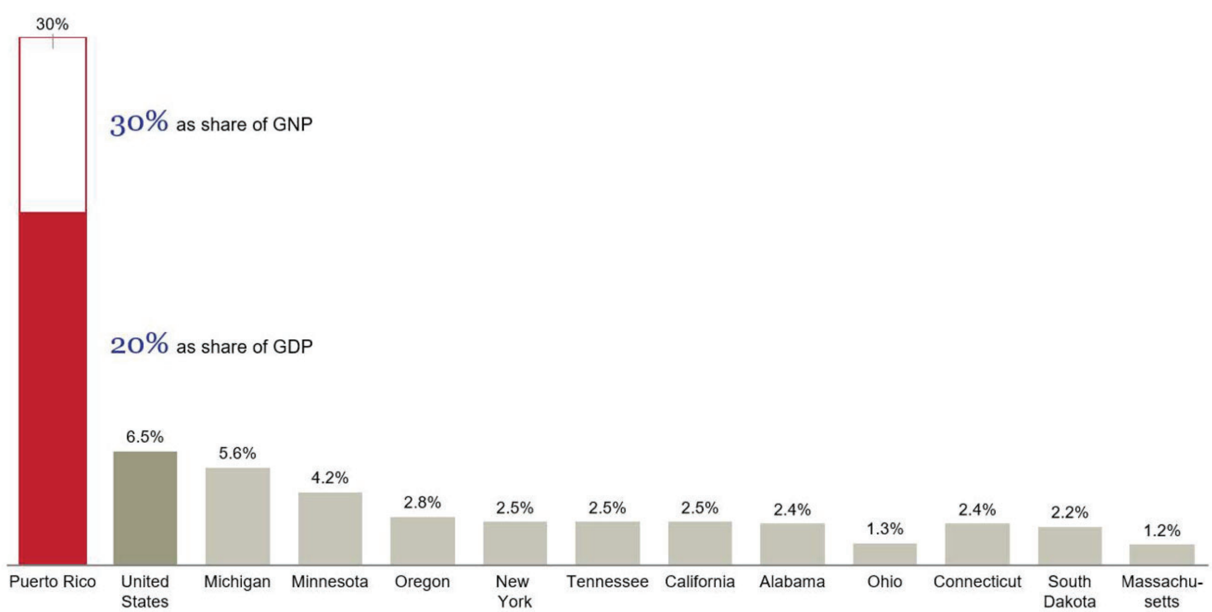
Total tax expenditures by dollar amount[1], $ in million

	Credits	Deductions	Exclusions	Exemptions	Preferential Tax rate	Deferrals	Total
Individual	$76	$348	$187	$446	$203	-	$1,260
Corporations	144	13	5	72	15,864	-	16,098
SUT	-	-	580	2,765	-	-	3,345
Excise tax	8	-	471	13	-	-	491
Total	$152	$13	$1,056	$2,850	$15,846		$21,194

1 Puerto Rico's Tax expenditure report identifies $26.4 bn of tax expenditure. However, some of the components of this total are estimates of the SUT base, rather than the revenue forgone from a tax on that base (i.e., SUT rate * base). These estimates were adjusted accordingly for SUT tax expenditures related to vehicles, electricity, gasoline, and water.

SOURCE: 2017 Tax Expenditures Report

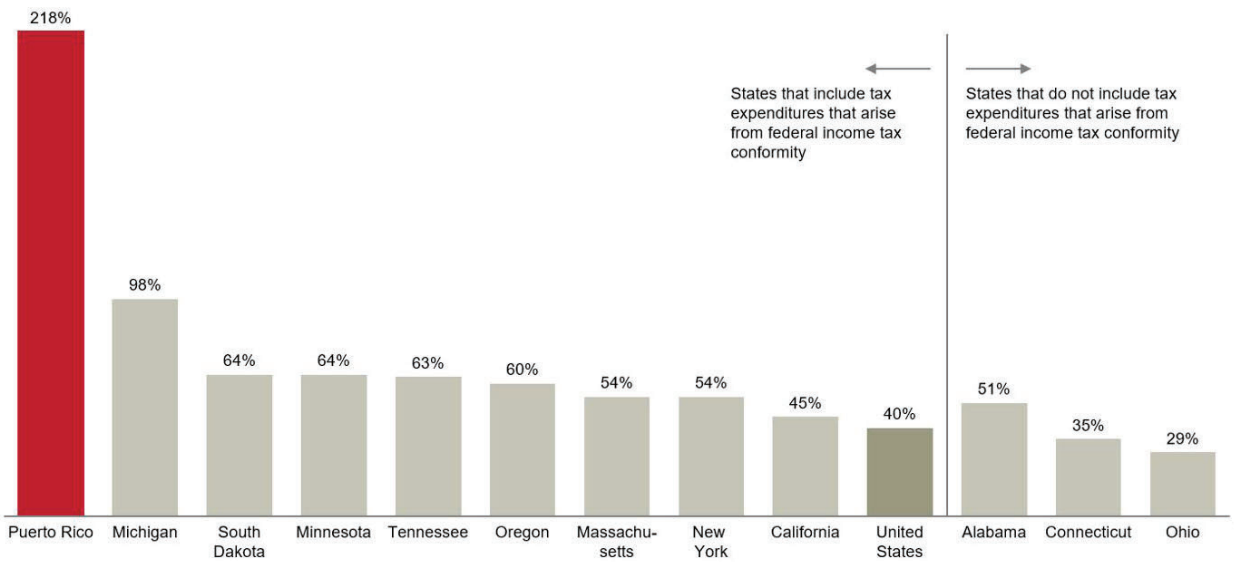
EXHIBIT 124: TOTAL ESTIMATED TAX EXPENDITURE AS SHARE OF GROSS STATE PRODUCT



Note: Gross States Product (GSP) data is gathered from the Bureau of Economic Analysis (BEA). Alabama, Connecticut and Ohio do not include tax expenditures that arise from federal income tax, further no state produces an entirely comprehensive set of tax expenditure estimates. As a result, some of the variance between states is due to differences in levels of this comprehensiveness. *Tax expenditure estimates for the US are for 2020 and reflect Tax Cuts and Jobs Act of 2017 changes in tax policy. US tax total is not reduced for the cost of the refundable portion of tax credits, including the Earned Income Tax Credit

SOURCE: Bureau of Economic Analysis (BEA)

EXHIBIT 125: TOTAL TAX EXPENDITURE AS A SHARE OF TOTAL TAXES



Note: Total tax expenditure includes tax expenditures associated with total individual income tax, corporate income tax, SUT, and excise tax as well as other taxes included in state tax expenditure reports (excluding property tax). Similarly, total taxes include all taxes other than property tax. Alabama, Connecticut and Ohio do not include tax expenditures which arise from federal income tax, further no state produces an entirely comprehensive set of tax expenditure estimates. As a result, some of the variance between states is due to differences in levels of this comprehensiveness.

For tax expenditures reporting to maintain its relevance and maximize its impact on the policy making process, regular reviews of each tax incentive must be completed to assess whether each incentive is meeting its policy objective (including an assessment of benefits along with costs).

All tax expenditures should undergo periodic technical reviews with a presumption each credit will be prohibited unless sufficient justification exists to maintain the incentive. The default position for all tax expenditures should be that the burden of proof of effectiveness lies with the tax expenditure. Absent a compelling justification, the tax expenditure should be eliminated. Simply because an incentive was offered in the past does not mean it meets the policy objectives in Puerto Rico's future.

Going forward, the estimates in the tax expenditures report must also be systematically incorporated into the annual fiscal plan and budget review process. This means the estimates need to be considered in conjunction with direct spending proposals at the executive review and legislative levels and as a component of the budget envelope for agencies responsible for related direct spending programs. As an example, to force a legislative discussion, other states automatically sunset certain tax expenditures, which expire unless the incentives are proactively renewed, or states will explicitly cap the level of incentives offered.

For that milestone to be achieved, the tax expenditure report must be produced annually on a timely and efficient basis. In fact, the publication of the first tax expenditures report, in September 2019, stated the second annual report would be published in March 2020. The Government, moreover, should already have published the 2018 and 2019 calendar years tax expenditure reports, in accordance with the timing stipulated in the 2020 Fiscal Plan. As of the certification of this 2021 Fiscal Plan, however, that milestone has not yet been met. The 2018 Tax Expenditures Report must now be published no later than May 31, 2021[325]. Additionally, going forward the Government must publish the annual report by December 31st of each calendar year.

Additional revisions must also be incorporated into future tax expenditure reporting. This includes a multi-year expenditure forecast, a policy rationale for each incentive, a year-end assessment of tax incentives granted to each intended target, and a trend analysis of tax revenue

325 On March 30, 2021 the Oversight Board issued a letter to the Secretary of Treasury providing detailed comments on the Commonwealth's tax expenditures.

collections. More specifically, future Tax Expenditure Reports must include the cost of each tax expenditure for the current year and at least the prior two years. The Tax Expenditure Reports must also forecast the expected revenue collections and losses for at least the next five years from the date the report is produced. As future Tax Expenditure Reports become more normalized, the forecast can also start accounting for behavioral effects of each incentive and the macroeconomic or other dynamic effects in the cost estimates.

Future Tax Expenditure Reports must also broaden the universe of tax expenditures included in the reports. The inaugural report included deviations from major revenue sources, including individual income taxes, personal income taxes, sale and gross receipts taxes and excise taxes. However, non-corporate business income tax analysis, property taxes, and certain other taxes were not included; going forward, they should be included in this report. In addition, the exclusion of Act 154 taxes from the report may need to be reconsidered and or its legitimacy confirmed. Including an inventory of all tax credits, cash grants, deductions, exemptions, preferential tax rate, tax liability deferral and any other tax incentives where amounts allocated can materially impact the Commonwealth's financials will make the report more comprehensive.

Rationalizing the amount of tax expenditures offered by the Government is smart and prudent fiscal management. This can only be done in a comprehensive way through the production of the annual tax expenditure report on a timely basis.[326]

17.3.2 Tax incentives code reform

The current tax incentives code structure has high fiscal costs – in excess of $400 million – but does not provide enough visibility to allow for clear tracking of these tax concessions and the returns they generate for Puerto Rico's economic growth. Past studies, based on limited available economic data, have indicated that while some tax incentives led to positive returns on investment, many others do not yield similar results.

That is what led the Commonwealth to enact Act 60-2019 (the "Puerto Rico Tax Incentives Code" or "Incentives Code"), which amended the tax incentives code and adopted a new legal and administrative framework to normalize the way in which new incentives are created, approved, processed, and monitored. Not all laws established in Act 60-2019 were repealed and replaced, creating confusion as to whether the Treasury Department should follow guidelines imposed by these still-active statues or those imposed by the Incentives Code. To fully effectuate the goal of the Incentives Code, and to limit confusion, the Government should take action and repeal the remaining statutes, still in effect that were merged into the Incentives Code. To evaluate the fiscal benefit from each incentive, the Incentives Code uses a Return on Investment ("ROI") approach combined with an assessment of fiscal multipliers to prioritize high value-added incentives relative to those that do not generate sufficient economic return. The Incentives Code, however, does not include explicit caps on, reductions to, or the elimination of any specific incentives. Rather, the purpose of the Incentives Code is to measure the ROI of tax and economic incentives by grouping them under a transparent and uniform code.

Through the Incentives Code, the term, rate, and characteristics of incentives offered are harmonized across industries and credits. The Incentives Code also creates a centralized Incentives Office for Businesses in Puerto Rico at DDEC and establishes an Incentives Concession Portal to centralize, standardize, and streamline the processes related to the application and approval of decrees, cash grants, tax credits, subsidies, and other incentives.

Act 60-2019 also required the public disclosure of beneficiaries of certain tax expenditures. In accordance with that requirement, DDEC disclosed (on January 30, 2020) that 8,364 companies and individuals received certain tax incentives. The online database offers the name of the grantee, the type of benefit, and the decree's issue date. DDEC released the relevant information for recipients that receive benefits from the following Acts: Act 14-2017 (Physician Retention); Act

326 Ibid.

20-2012 (Exportation of Services); Act 22-2012 (Investor Relocation); Act 273-2012 (International Financial Center Regulatory Act); and Act 27-2011 (Film Production). DDEC subsequently released additional data on February 11, 2020, disclosing recipients of the following tax expenditures: Act 73-2008 (Economic Incentives for the Development of Puerto Rico Act); and Act 83-2010 (Puerto Rico Green Energy Incentives Act). During FY2021, DDEC had a milestone budgeting incentive to publish quarterly reports on the agency's website detailing all economic incentive donations and subsidies to private corporations from FY2017 to the present date. DDEC has accordingly published the quarterly reports on their website.

Many provisions of Act 60-2019, before they can be implemented, require the drafting and approval of regulations, including prior Oversight Board review and approval.[327] The promulgation of such regulations was included as part of the process during FY2021 and such regulations must continue to be drafted and approved during FY2022.

The lack of transparency and high cost of these tax concessions warrants further revisions to the Incentives Code such that tax incentives are structured in a way that is more likely to be beneficial to the Commonwealth. A multipronged approach is needed. This approach must include limiting the DDEC Secretary's discretion in awarding incentives, specifying in more detail the meaningful information to be submitted in the annual public reporting required by the statute, establishing a more robust audit process with meaningful penalties for firms that are found to be out of compliance or failing to provide the anticipated benefits, and establishing an ROI based standard of program evaluation that will meaningfully discriminate among projects so that incentives are concentrated on those projects most likely to provide net economic benefits to the commonwealth.

This can most easily be accomplished through the drafting and approval of Act 60-2019's regulations, including prior Oversight Board review and approval. Specifically, these regulations must, at minimum, include the following provisions:

- **Deconcentrated authority and distributed oversight.** At the moment, excess discretionary authority for determination of eligibility, terms and award of tax incentives and grants is concentrated with a single official of the Commonwealth Government, the DDEC Secretary. Act 60-2019 regulations combined with an Executive Order by the Governor should establish an Economic Incentives Review Board, with the DDEC Secretary as Chair, to advise and confirm incentive awards, the terms of these awards, the process and methods involved in the evaluation of award proposals, annual award limits, oversight and reporting requirements, and consultation with affected agencies and municipalities. In addition to the DDEC Secretary, this body should be composed of senior fiscal office holders within the Commonwealth Government who do not report to the DDEC Secretary, such as, for example, (i) Treasury Secretary, (ii) Puerto Rico Fiscal Agency and Financial Advisory Authority Executive Director, (iii) Director of Office of Management and Budget, and (iv) Chief Investment Officer.
- **Evaluation standards for tax incentive and grant award should be balanced.** Act 60-2019 established a positive ROI as the primary standard for determining incentive awards. The standard as currently operationalized, however, lacks balance. Benefits are defined more comprehensively and extensively than are costs, resulting in an ROI standard that does not assure net benefit actually accrues to the Commonwealth. The ROI standard operationalized by the implementing regulations should consider opportunity costs to the Commonwealth and any consideration of direct, indirect and induced benefits, and should also require consideration of direct, indirect and induced cost for the ROI standard to meaningfully reflect net outcomes for the Commonwealth.
- **Limited time duration and sunset and review.** Any decree or incentive granted under Act 60-2019 should be for a specifically identified and limited amount of time. Typically, this should be no more than 5 years based on facts and circumstances, and extraordinary processes

[327] Pursuant to PROMESA section 204(b)(4) and the Oversight Board's policy with respect thereto, proposed rules, regulations, administrative orders and executive orders covered by said policy, including all regulations under Act 60-2019, must be submitted to the Oversight Board before being issued to ensure compliance with the certified 2021 Commonwealth Fiscal Plan

of review and approval should be required of any decree granted for a period in excess of 5 years. All decrees should specify and expiration date. No decrees should be extended without reapplication. Annual reports to the Legislature should include an evaluation of the efficacy of incentive programs and each program should undergo extensive review every 3 years which includes a recommendation on its continuation or termination and the detailed basis for that recommendation.

- **Budgeting incentives.** Cash grants require annual appropriation. All incentives, however, should be limited. Annual limits should be placed on the aggregate scale of incentives that can be offered each year. The estimated revenue loss calculated in the ROI should form the basis of determining annual revenue costs and the aggregate of these costs should be limited annually. Additional awards should be deferred to the following year once annual limits are reached. The accuracy of estimated revenue losses should be confirmed in subsequent program reports.
- **Revenue neutrality.** Firm limits should be established to limit the set of potentially eligible projects to ensure, with confidence, these projects satisfy development objectives and remain revenue neutral and consistent with the certified 2021 Fiscal Plan. Within the ROI methodology, the fiscal analysis of projects should assure at minimum they are revenue neutral.
- **Consultation with affected agencies and municipalities.** All affected agencies and jurisdictions should be consulted regarding the offering of tax incentives and the Commonwealth Government should not be permitted to commit the tax resources of a municipality toward a tax incentive without that municipality's active concurrence. Procedures should be established to minimize the risk that municipalities' tax resources are committed toward a tax incentive without a mutual agreement in place ensuring that the incentive is in both governments' best interests.
- **Public reporting of incentive recipient performance and audit.** Regular reporting of incentive effectiveness is required through publication of an Annual Incentive Effectiveness Report. The Act 60-2019 regulations should also provide meaningful guidance on how required project performance measures will be obtained or calculated. The annual report should include detail sufficient to maintain transparency and accountability. Similar to the DDEC transparency portal, it should publicly disclose recipients, type and level of performance on incentives and expected public benefits. To assure that recipients comply with the terms of incentive decrees, audits should be periodically performed in the form of detailed desk reviews of compliance reports and on-site audits of books and facilities. Audit selection and review should be based on the decision of an audit committee, rather than at the discretion of a single official. An important feature to consider including are random audits incorporating a full onsite review of performance targets related to, for example, facilities, employment documentation, charitable contributions, investment, local purchases, and exports.

17.3.3 Principle of revenue neutrality

Puerto Rico needs to drive toward more formality and increased compliance within the tax base, but it cannot lose revenues in the process. Therefore, any tax reform or tax law initiative that the Government undertakes or pursues during a year within the 2021 Fiscal Plan period must be revenue neutral, that is, all tax reductions must be accompanied by specific, offsetting revenue measures of the same amount that are identified in the enabling legislation. Each tax measure must also include confidence building elements, such as behavioral adjustments and reasonable capture rates. To ensure revenue neutrality, the implementation of any tax law initiative must occur sequentially, with the Government ensuring that initiatives are paid for before rates are reduced. Enforcement mechanisms that yield additional revenues must be part of any tax initiative package that results in a tax revenue decrease to prevent a scenario where tax reductions

are not accompanied by sufficient offsetting revenue measures identified in the enabling legislation.

17.3.4 Required implementation actions

To achieve the 2021 Fiscal Plan revenue measures, certain action items must be implemented according to the schedule described in *Exhibit 126*:

EXHIBIT 126: REVENUE MEASURES REQUIRED IMPLEMENTATION ACTIONS

Required implementation action	Deadline
▪ Implement process to estimate the impact of compliance efforts on revenue collections to inform future program priorities	▪ June 2021
▪ Publish an annual Tax Expenditures Report that identifies and quantifies all tax expenditures (including tax exclusions, exemptions, adjustments, deductions, subtractions, credits, abatements, deferrals, rebates, and special rules).	▪ December 2021
▪ Implement process to ascertain proper classification of all excise tax revenues collected through SURI	▪ December 2021
▪ Conduct an analysis on the estimated number and value of online rentals to compare with the total collections from Online Rental Platforms Tax.	▪ December 2021

Chapter 18. Reduction in appropriations to UPR

18.1 Current state and vision

The central Government provides a range of appropriations, including to the University of Puerto Rico (UPR), Puerto Rico's 78 municipalities, the Highways and Transportation Authority (HTA), and "other" recipients (typically private industry or non-profit institutions).

The UPR, founded in 1903, is Puerto Rico's largest and main university system. Its mission is to serve the people of Puerto Rico, contribute to the development and enjoyment of the fundamental values of Puerto Rican culture, and uphold the ideals of a democratic society. To advance its mission, UPR strives to provide high-quality education and create new knowledge in the Arts, Sciences, and Technology. UPR has a history of academic excellence, with 694 degree-granting academic and professional certification programs, including six first-level professional degree programs and 34 PhD programs. The university system is also an important center of research; for example, the Río Piedras campus is classified as a high research activity university by the Carnegie Foundation (one of only 335 U.S. universities to receive such a designation) and there are 79 separate research centers across the university system. UPR plays a critical role in providing avenues for social and economic advancement, with 68% of students receiving Pell grants.[328]

In FY2018, UPR was 67% subsidized (~$678 million in annual appropriations) by state and local funds, compared to an average 25% state and local subsidization for U.S. public universities.[329] In FY2018, UPR's undergraduate tuition was less than one-third of the U.S. average for public universities, even after adjusting for per-capita income, and more than 40% below the average

328 UPR 2012-2017 Strategic Plan
329 UPR, IPEDs 2016, College Board

required to establish a memorandum of understanding with AEP on specific maintenance costs which can be covered.

For road maintenance, the 2020 Fiscal Plan made available $10 million for FY2021, which has been extended to FY2022. Within this incentive fund, municipalities can be reimbursed for maintenance costs associated with their secondary and tertiary roads through coordination with the Department of Transportation and Public Works (DTOP for its Spanish acronym). 78 municipalities with 6,553 kilometers of roads are eligible to participate. This represents $1,526 available funds per kilometer. Municipalities are required to establish a memorandum of understanding with DTOP on specific maintenance costs which can be covered and may include primary roads.

19.3.3 Property tax reform

CRIM plays an important role in supporting Puerto Rico's municipalities in their economic and social development by ensuring an efficient process for collecting and distributing real and personal property taxes, which are important revenue sources for municipalities. For FY2021, property taxes represent approximately 30% of the aggregate general fund budget for municipalities.

Historically, the taxable value of real and personal property has been significantly reduced by tax exemptions and exonerations, which have a negative impact on the municipalities that rely on property taxes to fund essential services. Puerto Rico offers considerably more tax breaks both in terms of number and notional value compared to other U.S. jurisdictions. For example, in FY2020, more than 50% of the real and personal property tax base was eliminated through these exemptions and exonerations. In addition, CRIM's tax roll does not include all the properties in Puerto Rico, nor does it accurately reflect the taxable value of some properties as significant home improvements have not been properly appraised. Similarly, due to outdated systems, there are high levels of delinquencies with collection rates for current year real property tax billings well below comparable jurisdictions, standing at approximately 68%. This has resulted in a large accounts receivable balance. Therefore, it is essential that CRIM seize all opportunities to maximize property tax collections by improving compliance to help municipalities reduce the reliance on the Commonwealth transfer and achieve long-term fiscal sustainability.

CRIM is continually undergoing an operational transformation centered around replacing outdated and inefficient applications and hardware, implementing best practices for business continuity, re-engineering processes to improve services to municipalities and taxpayers, and establishing a more data-driven culture. These initiatives should serve as the foundation for CRIM to implement strategies for successfully enhancing tax revenue collections. In addition, CRIM is undertaking various measures to improve collaboration with other government agencies and update the tax rolls to accurately reflect property taxable value and ownership. These measures will allow CRIM to better capture unrealized property tax revenues by increasing tax compliance and improving overall collection rates. Based on implementation planning discussions with CRIM management, CRIM estimates these initiatives could produce:

- $69 million of additional annual revenue from raising real property tax compliance from 68% to 76%
- $166 million of additional annual revenue from registering properties and home improvements not on the tax roll
- $89 million of additional annual revenue from fixing incorrect mailing addresses in the billing system
- $400 million of one-time revenue from selling the accounts receivable portfolio
- Additional revenue-enhancing measures are identified in CRIM's 2021 Fiscal Plan

EXHIBIT 150: LIST OF ENTITIES EXCLUDED FROM THE 2021 FISCAL PLAN

Entities issuing standalone Fiscal Plan	Entities excluded from Fiscal Plan
Development Bank for PR	Agency Fund (Special Deposit Fund)
Aqueduct and Sewer Authority	Commonwealth of Puerto Rico Regional Center Corporation
Municipal Revenues Collection Center (CRIM)	Public Finance Corporation (PFC)
PR Electric Power Authority	Puerto Rico Government Investment Trust Fund
PR Highways and Transportation Authority[1]	Puerto Rico Municipal Finance Agency
Puerto Rico Industrial Development Company	Puerto Rico Water Pollution Control Revolving Fund
University of Puerto Rico[2]	Puerto Rico Industrial Development Company
Public Corporation for the Supervision and Deposit Insurance of Puerto Rico Cooperatives	Safe Drinking Water Treatment Revolving Loan Fund
	The Children's Trust Fund
	Tourism Development Fund

1 Commonwealth Fiscal Plan includes HTA general fund appropriations
2 Commonwealth Fiscal Plan includes UPR general fund appropriations

Chapter 23. Macroeconomic projections

23.1 Economic and demographic trends

EXHIBIT 151: MACROECONOMIC TRENDS

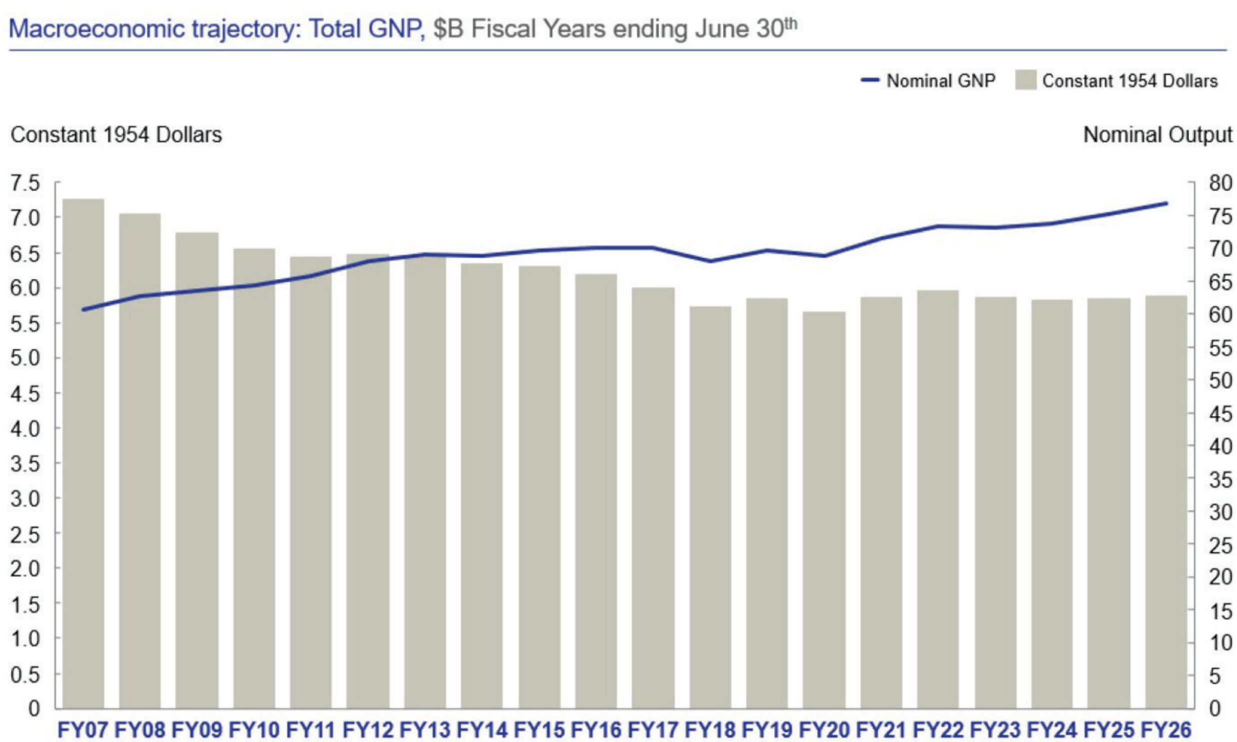


EXHIBIT 152: POPULATION TREND

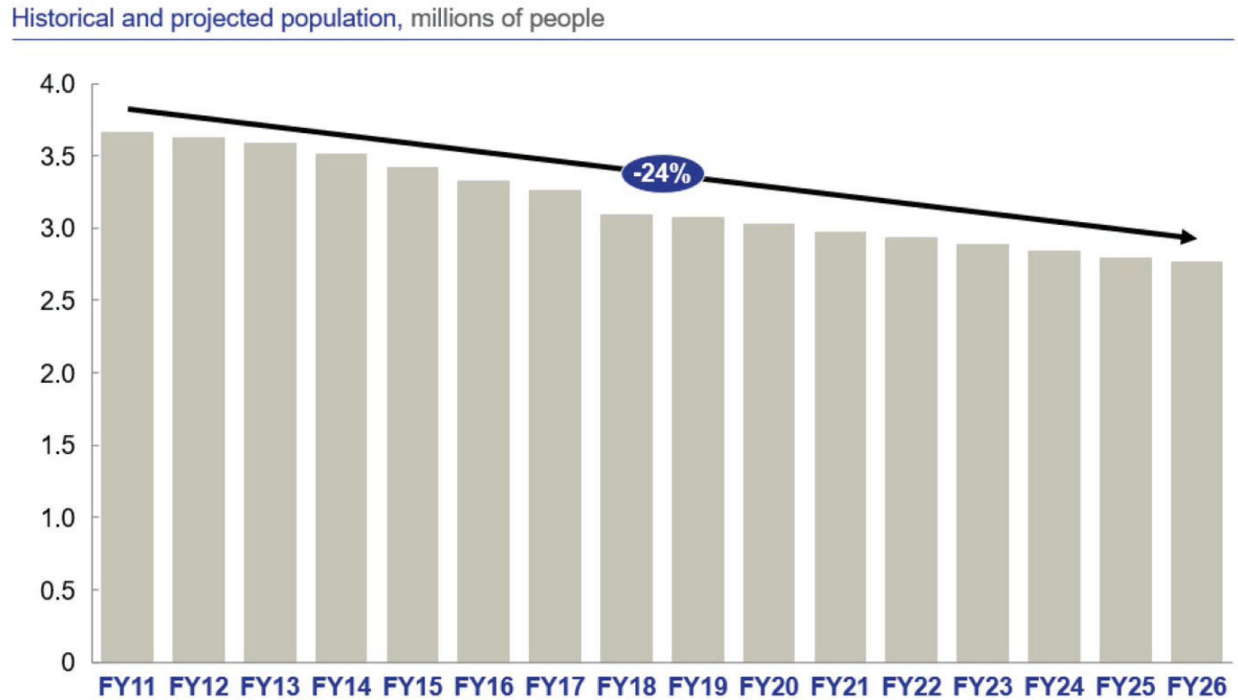
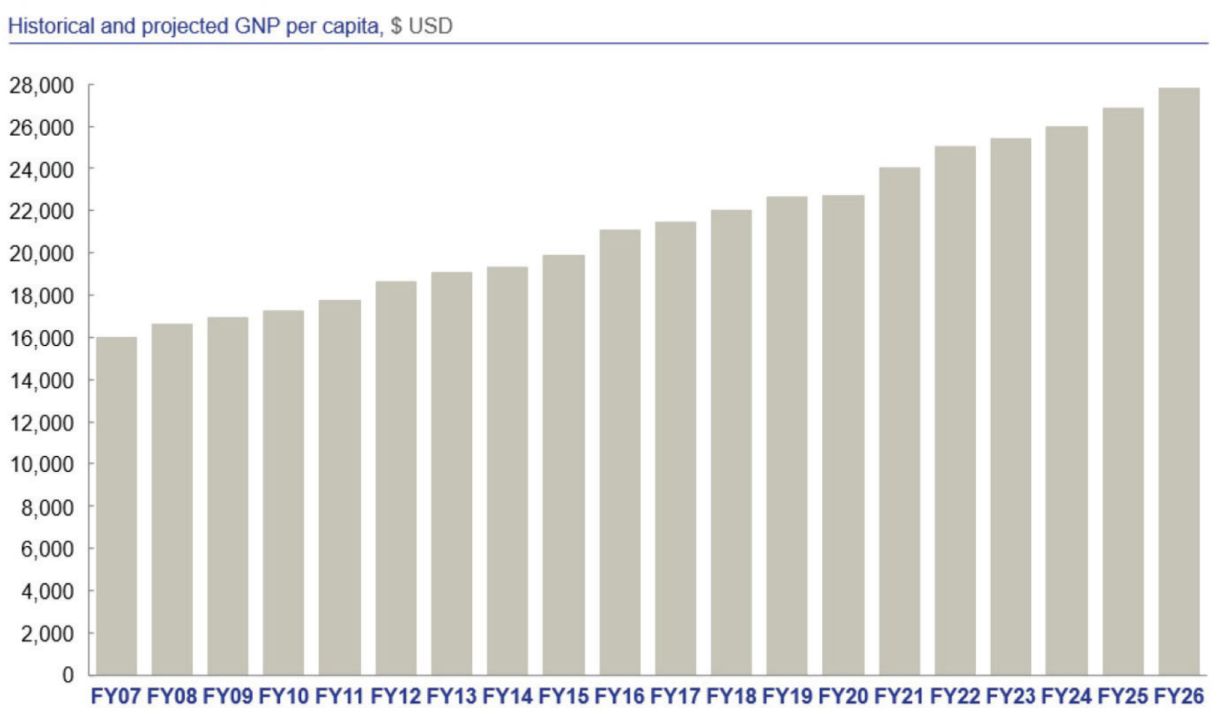


EXHIBIT 153: PER CAPITA GNP TREND



Chapter 24. Financial projections

24.1 Detailed financial projections

EXHIBIT 154: FINANCIAL PROJECTIONS POST-MEASURES AND STRUCTURAL REFORMS

Financial projections post-measures and structural reforms, units as labeled

Line item	FY22	FY23	FY24	FY25	FY26
Population, #	2,928	2,883	2,839	2,798	2,764
Population growth rate, %	-1.6%	-1.6%	-1.5%	-1.5%	-1.2%
Real growth rate[4], %	**1.5%**	**-1.5%**	**-0.7%**	**0.4%**	**0.7%**
Nominal GNP, $M	**73,333**	**73,156**	**73,679**	**75,106**	**76,759**
Nominal GNP per capita, $	25,042	25,376	25,952	26,846	27,770
Nominal GNP per capita growth, %	4.3%	1.3%	2.3%	3.4%	3.4%
Inflation, %	**1.1%**	**1.3%**	**1.4%**	**1.5%**	**1.5%**
Disaster funding, $M	3,950	5,318	4,681	5,879	5,883
Revenues[1], $M	**21,487**	**20,447**	**20,238**	**20,586**	**20,914**
Commonwealth revenues	15,773	15,504	15,229	15,506	15,757
Federal transfers	5,714	4,943	5,009	5,080	5,158
Expenditures[1], $M	**(19,771)**	**(19,127)**	**(19,167)**	**(19,321)**	**(19,581)**
Commonwealth-funded expenditures	(14,065)	(14,193)	(14,167)	(14,250)	(14,431)
Federally funded expenditures	(5,706)	(4,935)	(5,000)	(5,072)	(5,150)
Gap/surplus, $M	**1,716**	**1,320**	**1,071**	**1,265**	**1,334**
Contractual debt service payments[2], $M	(1,749)	(1,764)	(1,674)	(1,679)	(1,668)
Net gap / surplus, $M	**(33)**	**(444)**	**(603)**	**(414)**	**(334)**
Surplus potentially not available[3], $M	*141*	*142*	*138*	*143*	*152*

1 Revenues and expenditures excluding gross up adjustments; revenues do not include Earned Income Tax Credit
2 Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only & does not represent anticipated future payments on restructured debt. Includes GO, PBA, CCDA, PRIFA, PFC, ERS. The 2021 Fiscal Plan does not assume any predetermined outcome of ongoing litigation with respect to GO bonds
3 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action
4 Adjusted for income effects

EXHIBIT 155: REVENUE BREAKDOWN POST-MEASURES (INCLUDING EITC)

Revenue detail post-measures, Earned Income Tax Credit and structural reforms

Fiscal Year Ending June 30, $M	FY22	FY23	FY24	FY25	FY26	FY22-26
General Fund Revenues:						
Individual Income Tax[1]	2,105	2,115	2,116	2,173	2,219	10,728
Corporate Income Tax	2,054	2,017	1,997	2,069	2,110	10,247
Sales and Use Tax	2,239	2,219	2,214	2,253	2,292	11,218
Act 154	1,631	1,447	1,199	1,199	1,199	6,676
Non-Resident Withholdings	349	349	350	354	358	1,759
Alcoholic Beverages	264	263	263	263	263	1,315
Cigarettes	95	94	94	94	95	472
Motor Vehicles	538	450	391	399	407	2,185
Excises on Off-Shore Shipment Rum	209	200	201	202	202	1,014
Partnerships	103	103	103	105	108	521
Other excise taxes	235	234	236	240	246	1,191
Other General Fund Revenue	387	386	389	396	405	1,962
Sub-total before other Tax Revenues	**10,207**	**9,877**	**9,554**	**9,747**	**9,904**	**49,289**
Total GF portion of misc. tax streams	552	569	571	578	584	2,854
Total Conditionally Allocable Revenues (including CRIM)	822	832	832	836	841	4,163
Total General Fund Revenues	**11,582**	**11,278**	**10,957**	**11,160**	**11,330**	**56,306**
Special Revenue Fund						
SRF revenues - CW Agencies	1,154	1,156	1,162	1,180	1,202	5,853
SRF revenues - IFCUs	1,633	1,646	1,663	1,695	1,731	8,367
Enterprise Fund Revenues	1,204	1,220	1,238	1,256	1,275	6,194
Total SRF Revenues	**3,991**	**4,022**	**4,063**	**4,131**	**4,208**	**20,415**
Federal Fund Revenues:						
Central Government	1,124	1,138	1,153	1,170	1,188	5,773
IFCUs	161	163	165	167	170	826
Social Programs	3,148	3,175	3,207	3,242	3,281	16,052
Federal Fund Revenues (excluding Medicaid receipts)	**4,432**	**4,476**	**4,525**	**4,579**	**4,639**	**22,651**
Federal Transfers - Medicaid	1,282	468	484	501	519	3,254
Total Federal Fund Revenues	**5,714**	**4,943**	**5,009**	**5,080**	**5,158**	**25,904**
Revenue post measures	**21,287**	**20,243**	**20,029**	**20,372**	**20,695**	**102,625**
Adjustments for revenue gross up	718	702	703	704	708	3,534
Revenue post measures and gross ups	**22,004**	**20,944**	**20,732**	**21,076**	**21,403**	**106,159**

1 Includes Earned Income Tax Credit

EXHIBIT 156: SUMMARY OF BASELINE EXPENDITURES AND MEASURES

Expense detail post-measures and structural reforms

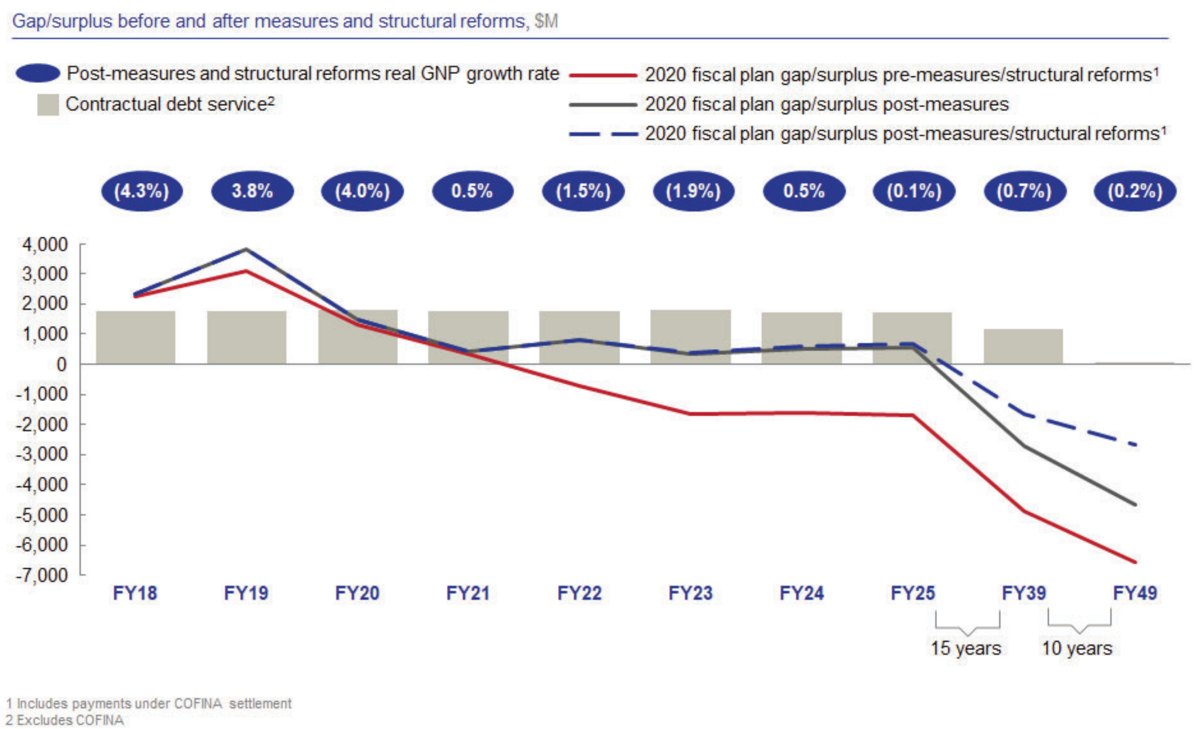
Fiscal Year Ending June 30, $M	FY22	FY23	FY24	FY25	FY26	FY22-26
Expenses						
General Fund Expenditures:						
Direct Payroll	(3,134)	(3,179)	(3,228)	(3,279)	(3,330)	(16,152)
Non-Personnel Operating Expense (excl. Capex)	(1,964)	(1,893)	(1,933)	(1,965)	(1,990)	(9,745)
Municipal, HTA and UPR appropriations	(1,193)	(1,179)	(1,125)	(1,142)	(1,128)	(5,766)
Pension Expenses	(2,307)	(2,285)	(2,281)	(2,272)	(2,263)	(11,409)
Disaster Recovery Cost Match	-	-	-	(40)	(61)	(101)
Restructuring / Title III Costs	(275)	(168)	(130)	(49)	-	(622)
Other GF Expenses	(535)	(498)	(500)	(507)	(491)	(2,530)
Total GF Expenses (excl. inter gov transfers)	**(9,408)**	**(9,203)**	**(9,197)**	**(9,254)**	**(9,263)**	**(46,325)**
Medicaid - commonwealth funded	(1,554)	(2,226)	(2,317)	(2,409)	(2,517)	(11,022)
Social Programs - commonwealth funded	(15)	(15)	(15)	(15)	(15)	(76)
Total GF Expenses (excl. inter gov transfers and incl. Medicaid and social programs)	**(10,977)**	**(11,444)**	**(11,529)**	**(11,678)**	**(11,795)**	**(57,423)**
Special Revenue Fund Expenditures:						
CW Agencies Direct Payroll	(696)	(707)	(716)	(728)	(740)	(3,588)
CW agencies Non-Personnel Operating Expenses (excl. Capex)	(1,534)	(1,542)	(1,556)	(1,582)	(1,612)	(7,825)
Medicaid - Special Revenue Fund	(414)	(427)	(437)	(447)	(458)	(2,183)
Federal Fund Expenditures:						
CW Agencies Direct Payroll	(739)	(743)	(748)	(753)	(761)	(3,744)
CW agencies Non-Personnel Operating Expenses (excl. Capex)	(938)	(950)	(962)	(976)	(991)	(4,817)
Medicaid - federally funded	(1,282)	(468)	(484)	(501)	(519)	(3,254)
Social Programs - federally funded	(2,747)	(2,775)	(2,806)	(2,841)	(2,879)	(14,047)
Total CW Funded Op. Exp.[1]	**(18,949)**	**(18,712)**	**(18,894)**	**(19,154)**	**(19,397)**	**(95,106)**
Expense Measures	1,051	1,443	1,608	1,745	1,758	7,605
Adjustments for expenditure gross up	(718)	(702)	(703)	(704)	(708)	(3,534)
Total CW Funded Op. Exp. Post Measures excl. Loss of Medicaid Funding	**(18,616)**	**(17,971)**	**(17,988)**	**(18,113)**	**(18,347)**	**(91,035)**
Net Operating Surplus/(Deficit)	**3,589**	**3,178**	**2,952**	**3,177**	**3,276**	**16,171**
Capex and Other Expenses:						
Maintenance Capex	(291)	(295)	(300)	(304)	(309)	(1,500)
Enterprise funds	(1,204)	(1,219)	(1,237)	(1,256)	(1,275)	(6,191)
Others[2]	(378)	(343)	(345)	(351)	(357)	(1,775)
Other Non-Recurring	-	-	-	-	-	-
Total Capex and Other Expenses	**(1,873)**	**(1,858)**	**(1,882)**	**(1,912)**	**(1,942)**	**(9,466)**
Surplus Post Measures (excl. Debt Payments)[3]	**1,716**	**1,320**	**1,071**	**1,265**	**1,334**	**6,706**
Pre Petition Contractual Debt Service (excl. COFINA)[4]	(1,749)	(1,764)	(1,674)	(1,679)	(1,668)	(8,533)
Surplus after Measures and Debt Payments	**(33)**	**(444)**	**(603)**	**(414)**	**(334)**	**(1,827)**
Surplus potentially not available, $M[5]	141	142	138	143	152	716

1 Excludes Enterprise Funds, Capex, Other non-recurring, Cigarettes, Disbursements to public corporations, Payment of State Revolving Funds / Other Federal Funds Deposits at GDB
2 Cigarettes, Disbursements to public corporations, Payment of State Revolving Funds / Other Federal Funds Deposits at GDB
3 Includes capex and other expenses
4 Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only and does not represent anticipated future payments on restructured debt.
5 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action.

EXHIBIT E

CERTIFIED COMMONWEALTH FISCAL PLAN

EXHIBIT 4: 2020 FISCAL PLAN PROJECTED SURPLUS BEFORE AND AFTER MEASURES AND STRUCTURAL REFORMS



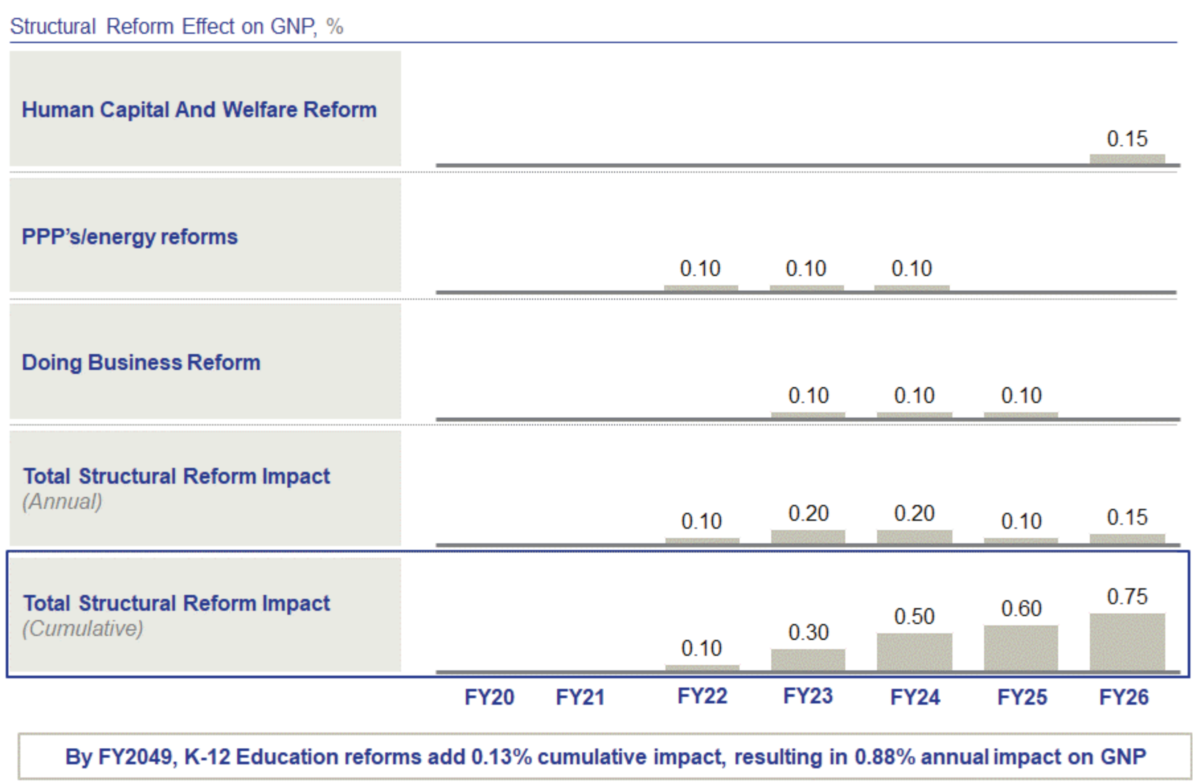
In conclusion, the Government of Puerto Rico cannot afford to meet its current contractual debt obligations, even with aggressive implementation of the included reforms and measures. The cumulative effect of multiple unprecedented natural disasters, on top of a decade-long secular recession, have left Puerto Rico with substantially diminished resources and capacity. Even with implementation of far-reaching, growth-inducing structural reforms, the 2020 Fiscal Plan projects that the Government cannot afford to meet its current contractual obligations. Recognizing the importance of the ongoing Title III proceedings, but taking into account these realities, the Oversight Board has paused discussion and prosecution of the Plan of Adjustment and the corresponding Disclosure Statement filed on February 28, 2020. The Oversight Board recognizes that the development of the February 2020 Plan of Adjustment proposed a sustainable debt burden for the Commonwealth, while garnering the support of General Obligation and PBA bondholders holding in excess of fifty-nine percent (59%) of such indebtedness, or approximately $10 billion. This was an important milestone and achieved through the assistance of the Title III Court's mediation team promoting dialogue among the Oversight Board and the Plan Support Agreement Creditors, all acting in good faith to achieve a consensual resolution of the Commonwealth's legacy debts. Clearly, the onset of the COVID-19 pandemic has raised the specter of both near-term and long-term material, adverse impacts from the virus upon the people of Puerto Rico and its economy. While the severity and the duration (including the possibility of recurrence) of the pandemic, as well as the full extent of federal support, are unknown, the Oversight Board's current pause on the implementation of the filed Plan of Adjustment has been, and remains, appropriate and necessary. The 2020 Fiscal Plan lays out a prudent and integrated set of actions to restore fiscal balance in the short term and outlines opportunities for more ambitious additional reforms to create the conditions for long-term fiscal balance.

4.4 Impact of structural reforms

The estimated impact of **structural reforms** is based on work done by the International Monetary Fund on labor reforms implemented in Europe (e.g., Spain and Estonia) and South America (e.g., Peru and Colombia), among other jurisdictions; utilities reform in Latin America; broadly-accepted metrics for measuring improvement in the World Bank's Ease of Doing Business Rankings (as well as case examples of growth experienced by countries that have implemented such reforms); and education reforms in Europe and elsewhere. Structural reform benchmarks, to the extent possible, come from nations or jurisdictions that face similar constraints to Puerto Rico (e.g., limited monetary policy options, high informal labor markets).

Energy and ease of doing business reforms are projected to increase GNP by 0.60% by FY2025, and Human Capital and welfare reform is expected to add another 0.15% in FY2026 (*Exhibit 12*). Finally, K-12 education reforms add an additional 0.01% annual impact beginning in FY2037, resulting in total GNP increase from structural reforms of 0.75% by FY2026 and 0.88% by FY2049. The anticipated timing of the incremental positive impact of these reforms has been delayed in this Fiscal Plan given the delay in the Government's implementation efforts.

EXHIBIT 12: MACROECONOMIC IMPACT OF STRUCTURAL REFORMS



4.5 Population projections

Even before Hurricanes Maria and Irma hit the Island in 2017, Puerto Rico's population had been trending downward by 1-2% every year as residents have left to seek opportunities elsewhere and birth rates declined. In 2016, the US Census Bureau's official forecast, projected a worsening population outlook due in large part to Puerto Rico's rapidly-aging population. This high average age range results from extremely low age-adjusted birth rates and outmigration of younger people. Indeed, in 2016, Puerto Rico began to experience negative

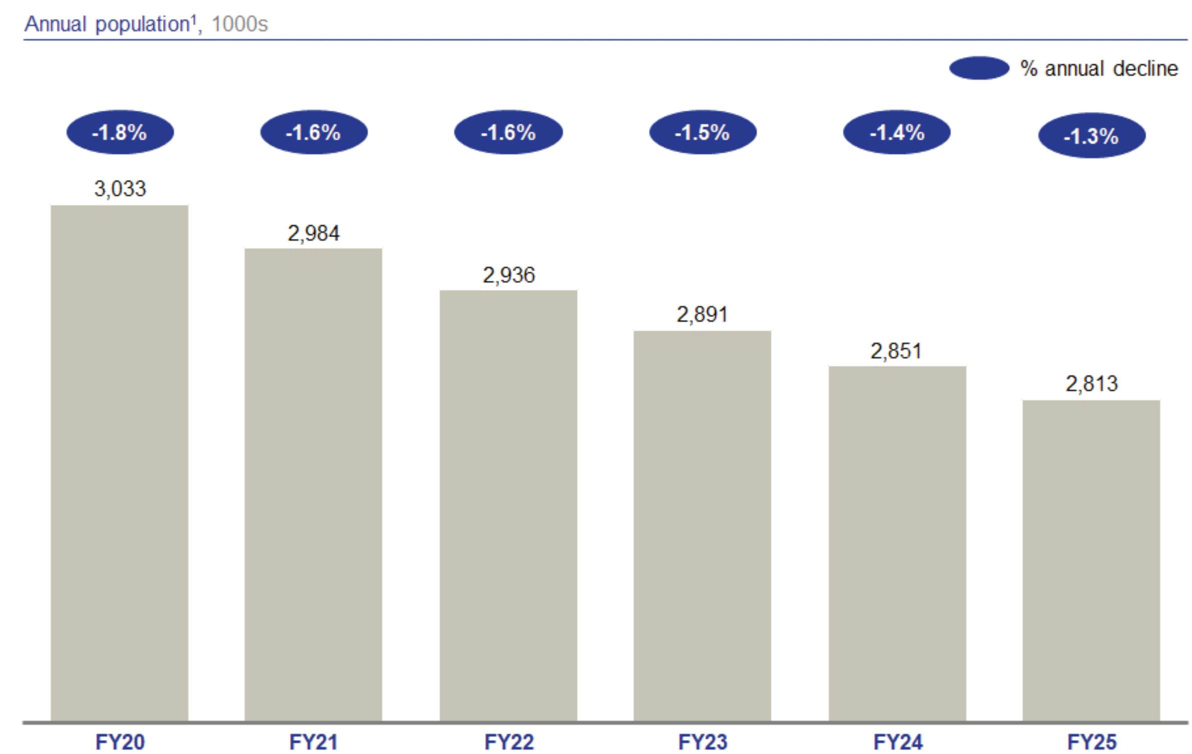
natural population change (a higher number of deaths than births). This negative natural change has continued unabated into 2020.

Hurricanes Irma and Maria served to compound the problem, spurring an additional outflow of people just as natural population decline has set in, as many residents lost houses, jobs, and loved ones. While some of these people have returned, the population is still projected to decline over the course of the 2020 Fiscal Plan period (*Exhibit 13*) and beyond. Further disasters, such as the series of earthquakes experienced in 2020, have not made a swift return to balanced migration any more likely. But while net migration is a larger driver of population change in the short term, this factor is volatile; in the long run, net migration is projected to return to more balanced trends. Meanwhile, natural population change is not guaranteed to rebalance at any point, and births are likely to continue declining, while deaths are projected to rise or stay stable.

The COVID-19 pandemic has been less severe in Puerto Rico than in many other areas thus far, and therefore no large epidemic-driven mortality rate increase is anticipated. COVID-19 is expected to suppress air traffic between Puerto Rico and the mainland, and thus impact migration, but this effect will be transitory.

As outlined in *Exhibit 13* below, this 2020 Fiscal Plan projects that by FY2025, there will be 9% fewer people living on the Island than in FY2019, and that by FY2049, the drop will grow to 30%.

EXHIBIT 13: PROJECTED POPULATION CHANGE



1 For reference, the population was 3.10M, 3.09M, and 3.03M in FY18, FY19, and FY20, respectively

4.6 Impact of First Circuit ruling on Supplemental Security Income benefits

On April 10, 2020, the US Court of Appeals for the First Circuit issued a ruling in a case related to the eligibility of Puerto Rico residents for Supplemental Security Income ("SSI") benefits

(*US v. Vaello-Madero*, 2020). SSI provides "monthly benefits to people with limited income and resources who are disabled, blind, or age 65 or older. Blind or disabled children may also get SSI."[19] SSI benefits have been available to otherwise qualifying residents of the 50 states, the District of Columbia, and the Northern Mariana Islands. Residents of Puerto Rico, however, have not been eligible for SSI benefits.

The case involved an SSI recipient who moved from New York to Puerto Rico and was subsequently required to repay SSI benefits received while the recipient was resident in Puerto Rico. The court ruled in favor of the recipient, finding the exclusion of Puerto Rico residents from SSI coverage to be invalid.

The court's finding is consequential, but the path forward is highly uncertain. The US Department of Justice has not indicated whether it intends to appeal the court's ruling, and the Social Security Administration, which administers SSI benefits, has not issued public guidance on how it will address the ruling of the court or on what time frame it will do so.

If SSI benefits were ultimately extended to eligible residents of Puerto Rico, initial analysis suggests that it could provide over $1 billion in incremental annual federal transfers to Puerto Rico. This amount would undoubtedly be welcome support to qualifying residents across the Island and could enable some level of increased consumption. The ultimate economic impact of these transfers is unclear, however, and will be examined in future Fiscal Plans. As of the time of certification of the 2020 Fiscal Plan, there is no information as to when and how the benefits will become available to residents of Puerto Rico, how the Government of Puerto Rico will work with the Social Security Administration to implement the changes, and what program integrity steps will be taken to ensure only those eligible receive it.

Chapter 5. Fiscal Plan financial projections (FY2020-FY2025)

The COVID-19 pandemic will have a profound impact on economic growth and, ultimately, on Government revenues. In a recent report, Moody's Investor Services stated "it will take years for state revenue to return to 2019 levels without tax increases, while recovery to a level where no COVID-19 crisis occurred is unlikely over a five-year horizon."[20] The impact to Puerto Rico is expected to be no less severe, with a real GNP decline in FY2020 of -4.0% will change the trajectory of economic activity in Puerto Rico over the entire forecast period.

As a consequence of this new economic reality, before measures and structural reforms (i.e., in the "baseline forecast"), there is a pre-contractual debt service deficit for all years of the 2020 Fiscal Plan.[21] This deficit gets worse over time, as federal disaster relief funding slows down, Supplemental Medicaid funding phases out, Act 154 and Non-Resident Withholding revenues decline, and healthcare expenditures rise.

The fiscal measures and structural reforms contained in the 2020 Fiscal Plan are the main drivers for a significant portion of the surplus in the 2020 Fiscal Plan. Fiscal measures will drive ~$10.0 billion in savings and extra revenue over FY2020-FY2025 and structural reforms will drive a cumulative 0.88% increase in growth by FY2049 (equal to ~$24.7 billion). However, even after fiscal measures and structural reforms, and before contractual debt service, there is an annual deficit reflected in the projections starting in FY2032. This is, in

19 Understanding Supplemental Security Income (SSI) Overview -- 2020 Edition, US Social Security Administration

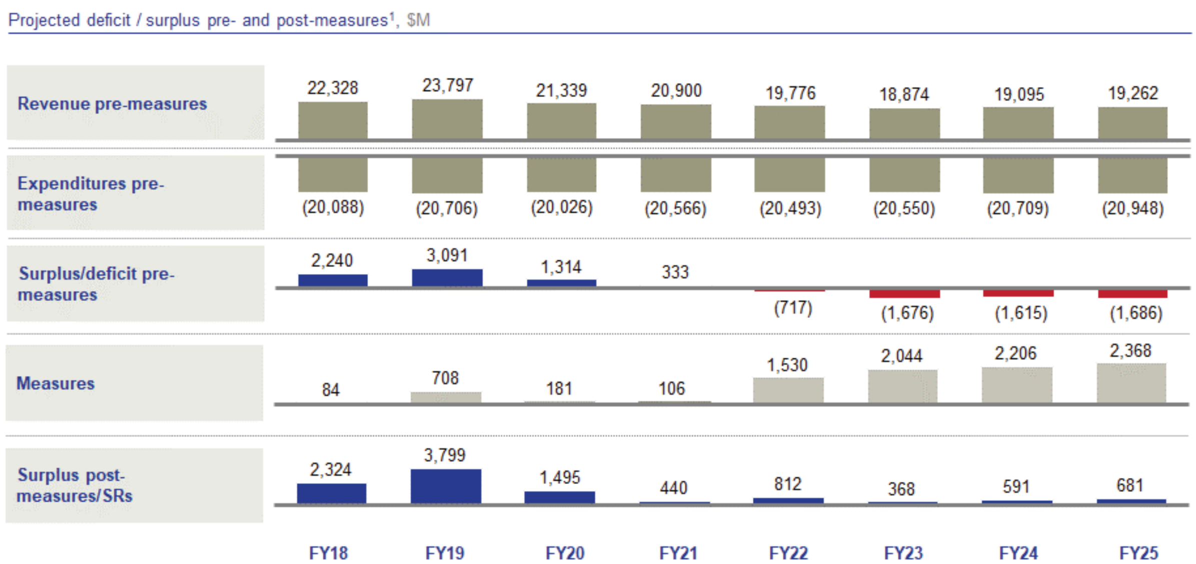
20 Moody's Investors Service, April 24, 2020: "Revenue recovery from coronavirus hit will lag GDP revival, prolonging budget woes"

21 The baseline forecast also reflects the pledge of a portion of annual SUT revenues to COFINA creditors as per the terms of the COFINA Title III Plan of Adjustment.

large part, due to insufficient structural reforms, including continued highly regulated and restrictive private sector labor market policies that prevent higher growth, a lack of progress in rolling out the NAP work requirement to increase labor force participation rates, and more meaningful Ease of Doing Business reforms to improve the economy's competitiveness and attract greater levels of investment and job creation. *Exhibit 14* illustrates the projected deficit / surplus through FY2025.

Projections for FY2026 onwards are included in *Chapter 6*.

EXHIBIT 14: PROJECTED DEFICIT / SURPLUS PRE- AND POST-MEASURES



1 Values presented assume full and timely implementation of structural reforms and reflect GNP uplift due to these reforms
2 Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only and does not represent anticipated future payments on restructured debt. Excludes HTA, UPR, PREPA, PRASA, Children's Trust, and COFINA.

5.1 Baseline revenue forecast

Major revenue streams (*Exhibit 15*) include non-export sector General Fund revenues (including individual, corporate, and sales and use taxes) and export sector revenues (including Act 154 excise taxes paid by multinationals operating on the Island, and Non-Resident Withholdings), as well as federal funding. The 2020 Fiscal Plan also includes clawback revenues in the Commonwealth's revenue streams and surplus calculations; this is based on the Oversight Board's legal conclusions that (i) such monies are property of the Commonwealth, (ii) each statute appropriating or transferring such monies to instrumentalities of the Commonwealth is preempted by PROMESA, (iii) such statutes were enacted by prior legislatures that cannot bind the current legislature, and (iv) in any event, under the Puerto Rico Constitution, such monies would not be transferred to the instrumentalities while General Obligation debt is not being paid according to its terms.

The 2020 Fiscal Plan generally reflects the revenue impact of COVID-19 in line with the estimates of macroeconomic impact described in *Section 4.1*. There is expected to be significant near-term uncertainty in the level of revenue collections as the expected duration and severity of the COVID-19 induced recession is constantly evolving. Personal income taxes will be significantly impacted by high unemployment. Consumption taxes will be impacted by lower overall economic activity. The 2020 Fiscal Plan estimates these impacts based on the

information currently available. Relative to the 2019 Fiscal Plan, general fund revenues are expected to be 12% lower in FY2020 and 11% lower in FY 2021.[22]

Administrative actions taken to delay tax payment due dates had the effect of delaying receipt of ~$668 million in taxes otherwise due in FY2020 to FY2021, according to Hacienda estimates. The 2020 Fiscal Plan treats these revenues as FY2020 tax revenues even though for some taxes the deadline for payment has been extended to early FY2021. The 2020 Fiscal Plan also forecasts that 10% of these revenues will not be received due to taxpayer inability to pay. The Oversight Board will work with Hacienda to track these receipts and adjust for actuals, including losses due to taxpayer inability to pay. In addition, ~$44 million in FY2020 SUT collections will be foregone as a result of tax exemptions on prepared food and on purchases for COVID-19-related first-aid items through May 2020

EXHIBIT 15: MAJOR REVENUE STREAMS

Key general fund revenue drivers, post -measures, $M

	FY20	FY21	FY22	FY23	FY24	FY25
Personal income taxes[1]	2,054	1,853	2,148	2,149	2,184	2,207
Corporate income taxes	2,280	1,778	1,833	1,835	1,865	1,877
Sales and use tax[2]	1,817	1,957	1,972	1,947	1,967	1,973
Act 154	1,831	1,691	1,447	1,199	1,199	1,199
Non-resident withholdings	474	570	583	535	537	539
Other general fund revenues[3]	1,360	1,374	1,412	1,394	1,408	1,417
Total	9,815	9,223	9,395	9,059	9,162	9,212

1 Does not include the expense related to EITC which is approximately $204 million per year
2 Sales and use tax (SUT) reflects collections after payout of the COFINA settlement
3 'Other' general fund revenues include cigarette, rum, motor vehicles, alcoholic beverages, and other GF taxes; exclude adjustments for revenue gross up

Additional details on the fiscal plan revenue streams are provided below, with details on the financial projections included in the Appendix. The following sections describe the longer-term approach to estimating revenues for key revenue streams.

5.1.1 Non-export sector General Fund revenue projections

Individual income taxes: Individual income taxes are highly concentrated, with 78.2% of revenues coming from the 8.7% of returns reporting income above $60,000 in FY2018.[23] The 2020 Fiscal Plan also incorporates the expected incremental tax collections associated with disaster recovery spending. Individual income tax collections outperformed relative to GNP growth in FY2018 and FY2019, and were on trend to do so again in FY2020 prior to the onset of COVID-19. The 2020 Fiscal Plan projects that disaster recovery spending will continue to contribute to the income tax base, either through mainland workers temporarily working in

22 Adjusted for one-time corporate income tax payments not included in the 2019 Fiscal Plan forecasts
23 Hacienda historical reports as of April 2018

Puerto Rico or from Puerto Rican residents entering the formal economy as a result of disaster recovery projects.

Corporate income taxes: There is also concentration in tax receipts among the largest corporations operating in Puerto Rico (e.g., ~29% of corporate income taxes are paid by 20 corporate taxpayers).[24] Historical aggregated data from Hacienda showed an influx of corporate activity spurred by reconstruction funding and mainland-based firms entering the Island economy. This had led to higher corporate income taxes relative to GNP in FY2018 and FY2019, and this trend was continuing in FY2020 prior to the onset of COVID-19. The 2020 Fiscal Plan incorporates the contribution of disaster recovery spending into future years. The 2020 Fiscal Plan projections reflect certain adjustments to corporate income tax revenues attributable to one-time M&A activity which resulted in a non-recurring $488 million of revenues in FY2020 and $73 million in reduced corporate income taxes starting in FY2021, as projected by Hacienda.

Sales and use taxes (SUT): As with corporate and personal income taxes, SUT outperformed relative to GNP in FY2018 and FY2019, likely boosted by the increased economic activity resulting from the post-disaster reconstruction process (including through the replacement of lost inventory), as well as higher SUT compliance by those larger firms less impacted by the storm. The 2020 Fiscal Plan incorporates this incremental tax collection as disaster recovery continues in future years. Following the COFINA Title III Plan of Adjustment, a portion of SUT collections will be used to pay the settlement going forward. This portion reaches ~$1 billion annually starting in FY2041.

Other General Fund revenue (Motor Vehicles, Alcoholic Beverages, Cigarettes): Motor vehicle revenue tax receipts surged in FY2018 and this trend continued into FY2020, as residents accelerated motor vehicles purchases in the aftermath of the storm. The 2020 Fiscal Plan reflects accelerated purchasing of motor vehicles that subsides and returns to historical trends over multiple years. The 2020 Fiscal Plan also reiterates a need for Hacienda to address challenges with cigarette taxes, which were $72 million short of required collections in FY2019. This trend was continuing in FY2020 pre-COVID-19, as Hacienda has yet to take steps to recover the lost revenues.

Export sector revenue projections: Act 154 and Non-Resident Withholding (NRW) tax revenues are concentrated in a small number of multinational corporations. From FY2017 to FY2023, the 2020 Fiscal Plan estimates that Act 154 and NRW revenues will erode due to US federal tax reform (reducing Puerto Rico's attractiveness as a low tax jurisdiction for multinationals), global supply chain diversification, and patent expirations.

5.1.2 Medicaid funding

On a steady-state basis (i.e., in the absence of supplemental federal legislation), Medicaid costs are funded primarily by the Commonwealth, as there is a cap on available federal funding. Typical annual federal funding streams for the Commonwealth are the following, and are projected based on current law and statutory growth rates:

- **Standard annual federal Medicaid funding.** Although Puerto Rico has a 55% federal matching assistance percentage (FMAP), the amount of annual federal funding received under Section 1108 is capped each year. For FY2020, this funding stream was expected to be capped at $380.3 million, and though the cap grows each year according to the Medical CPI-U, it does not keep pace with healthcare expenditure growth.[25] Each year, ~$100

24 Hacienda historical reports as of April 2018

25 According to §1108(g) of the Social Security Act., from 2011 to 2016, the cap grows by the medical component of CPI-U as reported by BLS each year. From FY2011-FY2016, this growth averaged 2.9%. This inflation rate differs from the healthcare inflation index for Medicaid and Medicare used elsewhere in the 2020 Fiscal Plan (4.5% to 5.5% from FY2020-FY2022, decreasing to 4.75% in FY2049). Instead, the medical component of CPI-U includes other factors that lower the inflation rate

million of these funds are not available to cover premium expenses, but rather are transferred to the Department of Health to cover disbursements to Federally Qualified Health Centers ("Centros 330" or "FQHC") and Medicaid Program operations.

- **Children's Health Insurance Program (CHIP) funding.** CHIP funding is not subject to a federal funding cap. Without additional legislation, the CHIP matching rate (E-FMAP) for Puerto Rico is expected to be 68.5%. Under the Affordable Care Act, the E-FMAP for Puerto Rico was raised to 91.5% through September 30, 2019; under the 2020 Further Consolidated Appropriations Act, the E-FMAP was increased to 83.2% through September 30, 2021 (with an additional 11.5% increase through September 30, 2020 under the 2018 HEALTHY KIDS Act); and under the Families First Coronavirus Response Act, the E-FMAP was increased to 99.0%. When these pieces of legislation expire in October 2021, the federal cost share is projected to decrease to the standard level (~68.5%).[26]

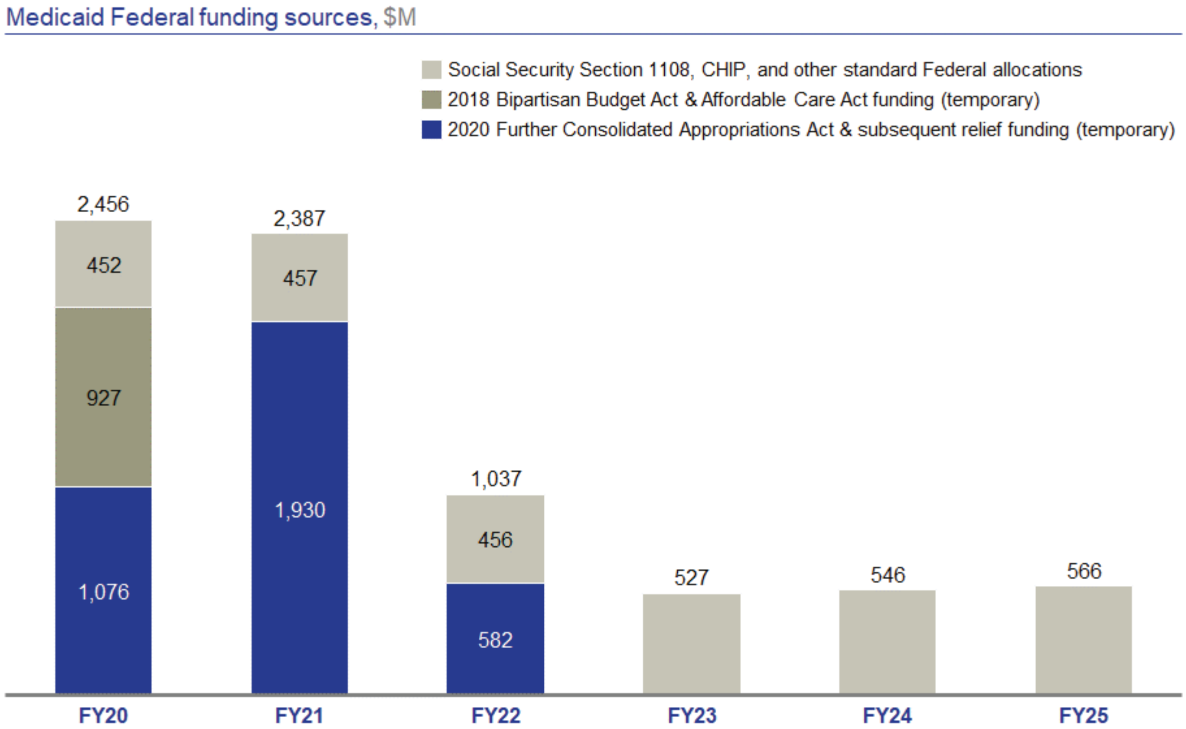
- **Increases in available Medicaid funding from federal legislation:** Since 2011, Puerto Rico has received temporary relief from rising healthcare costs through increased levels of federal reimbursement made available through the passage of the Affordable Care Act and the Bipartisan Budget Act of 2018. In December 2019, the Further Consolidated Appropriations Act was passed, which provided supplemental federal funding (up to $5.7B in total) to Puerto Rico's Medicaid program through September 30, 2021 (i.e., the first quarter of FY2022). In addition, the law raised the FMAP—the portion of Medicaid expenditures that federal funds can cover—from the standard level of 55% to 76% for most populations. Finally, as mentioned above, in response to the COVID-19 pandemic, the Families First Coronavirus Response Act was passed in March 2020, further increasing both the available federal funds (adding an additional $183M) and the FMAP (increased by an additional 6.2% for most populations). The available supplemental federal funds and higher FMAP will both return to standard levels in October 2021 without new federal legislation. Accordingly, the Commonwealth will hit a "Medicaid fiscal cliff," whereby it will be responsible for multi-billion-dollar annual healthcare expenditures that had previously been covered by federal funding since 2011. The 2020 Fiscal Plan does not assume future legislation changes. The 2020 Fiscal Plan ensures that the Commonwealth is fiscally responsible under current law, and factors in the cost of Medicaid going forward in the absence of incremental legislation. To ensure healthcare for a substantial part of the population, the Commonwealth must be able to pay and manage these critical costs, which grow faster than inflation, regardless of the future federal legislative environment.

Exhibit 16 outlines expected Medicaid federal fund receipts. After the first quarter of FY2022 (ending September 30, 2021), supplemental federal funding is projected to phase out. This "funding cliff" further exacerbates the imperative and urgent need to implement cost-saving measures to reduce long-term Medicaid costs (Medicaid expenditures are discussed in detail in *Section* 5.2.4*)*. All projections are based exclusively on legislation that is currently in force.

by approximately 3-5 percentage-points, meaning the increase in the federal funding cap will not keep up with actual increases in expenditures

26 MACPAC: "Medicaid and CHIP in the Territories" (April 2020)

EXHIBIT 16: BASELINE FEDERAL FUNDS RECEIPT PROJECTIONS



5.1.3 *Other federal funding*

In addition to Medicaid funding, Puerto Rico receives other federal funds on a regular basis. These are not to be confused with disaster relief funds, which are directly tied to Hurricane Maria and earthquake reconstruction activity, or with COVID-19 response and relief funds, which are meant to cover incremental government spend to respond to the global pandemic. These funds typically cover both social benefits and operational expenditures. In the 2020 Fiscal Plan, these funds have been modeled based on what types of costs they cover (e.g., benefits or operations) as well as statutory formulas that define the size of Puerto Rico's allotment. For example, while Temporary Assistance for Needy Families (TANF) funds are typically pass-through (e.g., none of these funds go to operational costs), some Title I education funds are used for operational purposes (e.g., teachers' salaries, school supplies for programs for students with special needs, etc.). For the former, federal fund inflows and outflows mirror each other (as benefit needs decline, so do funds). For the latter, though inflows may decline, it does not necessarily mean expenditures decline as well – as expenditures are based on operations, not on benefits formulas, and the Commonwealth may have to fund the operations notwithstanding reduced federal funding. Meanwhile, while Head Start funds are allocated from the Federal Government based on the number of children living in poverty, NAP funds are provided through a block grant that is capped. The former, therefore, should change by population, while the latter should only grow with inflation, regardless of population changes.

5.1.4 *Special Revenue Funds*

Commonwealth agency Special Revenue Fund (SRF) revenues: The Commonwealth collects a significant portion of its revenues through Special Revenue Funds, which are funded from, among other sources, tax revenues transferred by statutes, fees and charges for services by agencies, dividends from public corporations and financing proceeds. Government tracking and reporting of these SRF revenues, associated expenses, and resulting surpluses or deficits has historically been incomplete and inconsistent. The baseline level of SRF revenues of

Commonwealth agencies (excluding IFCUs) has been updated in this 2020 Fiscal Plan. The 2020 Fiscal Plan does not further detail SRF by type (special state funds, own revenues and other revenues), as Commonwealth agencies (excluding IFCUs) do not report this level of detail. Future budget and Fiscal Plan processes will aim to further clarify Special Revenue Funds and apply controls to ensure transparency and accountability for these revenues. SRF revenues from fees and collections are also expected to be negatively affected by the COVID-19 pandemic, as agencies face decreased demand for services as a result of the lockdown.

Independently Forecasted Component Unit (IFCU) revenues: The Commonwealth contains thirteen Independently Forecasted Component Units, which range from public corporations (e.g., the State Insurance Fund Corporation) to public hospitals (e.g., the Cardio Center). These entities are mostly funded by Special Revenue Funds and may also receive General Fund appropriations. Through the FY2020 budget process and FY2019 actuals, the Oversight Board was able to gain more insight into the specific revenue streams for these entities to further refine the IFCU revenue projections. While most IFCU revenues are projected using GNP, given the unique nature of each IFCU, certain revenue streams are grown by other factors, such as inflation, population, or as governed by legislation. The 2020 Fiscal Plan factors in the significant expected negative impact of the COVID-19 pandemic on demand for government- and tourism-related services.

Municipal contributions to PayGo and ASES: The 2020 Fiscal Plan includes receipts from municipalities to cover retirement and healthcare expenses incurred by the Commonwealth on their behalf. Since the passage of Act 72-1993, ASES has received funding from municipalities for the administration and delivery of the Government Health Plan on their behalf. Similarly, since the passage of Act 106-2017, municipalities that participate in ERS are financially responsible for PayGo expenditures covered by the Commonwealth. The passage of Act 29-2019 disrupted this model and required the Government to fund municipalities' PayGo and Medicaid costs from the General Fund without receiving reimbursement from the municipalities. However, following legal proceedings initiated by the Oversight Board challenging the validity of Act 29-2019 under PROMESA, the Title III court ruled that Act 29-2019 violated PROMESA and nullified the law, thereby reinstating the municipalities' obligation to cover PayGo and healthcare payments for their employees. This ruling's consequences enabled the Commonwealth to seek reimbursement for prior payments made under Act 29-2019 and empowered the Commonwealth to act if these contributions are not received (e.g., to withhold payments for utilities, appropriations). The effective date of the court's ruling was delayed to May 7, 2020 so as to allow for the parties to discuss potential solutions to the financial challenges faced by municipalities, particularly in light of the COVID-19 pandemic. Accordingly, the 2020 Fiscal Plan assumes that municipalities fund their respective contributions for PayGo and healthcare expenditures going forward. In calculating municipalities' healthcare expenditures, however, the 2020 Fiscal Plan does take into account the incremental federal funding support in FY2021 and FY2022 made available through the 2020 Further Consolidated Appropriations Act. Given that this funding stream expires in FY2022, the 2020 Fiscal Plan assumes that contributions from municipalities thereafter will return to previous levels, but the Oversight Board would consider utilizing a similar approach in future years should additional federal funding again be provided.

Public Corporation PayGo receipts: The 2020 Fiscal Plan includes receipts from public corporations that participate in ERS to cover PayGo expenditures covered by the Commonwealth. The Commonwealth shall be reimbursed for these payments and will act if these contributions are not received (e.g., will withhold payments for utilities).

FAM: The Municipal Administration Fund (FAM) collects 0.5% of the SUT which is distributed into three funds: (1) 0.2% to the Municipal Development Fund; (2) 0.2% to the Municipal Redemption Fund; and (3) 0.1% to the Municipal Improvement Fund (referred to as the FMM). Pursuant to Section 4050.09 of Act 1-2011, the FMM are to be distributed through annual legislation and appropriated for select capital works and improvement

projects for the municipalities (e.g., public housing, schools). The legislature passes resolutions each year to allocate the FMM. These resolutions must be consistent with the 2020 Fiscal Plan and the applicable special revenue funds included in the Certified Budget.

5.1.5 Gross-up for tax credits

Gross-up of revenues to reflect potential revenues without payment of tax incentives: In addition to offering preferential tax rates, tax exemptions, tax abatements, and cash grants, the Government of Puerto Rico incurs hundreds of millions of dollars in tax credits to corporations and individuals each year. Some of these tax credits function as entitlement programs: any business that meets the requirements set forth in law is entitled to the benefit. Other tax credits give government officials considerable discretion on which projects will receive incentives. Many of these tax credits are intended to pursue certain policy goals such as stimulating employment, stimulating economic activity and economic development, encouraging investment, and protecting local industries. Unlike traditional expenditures, however, tax credits are not incurred in a transparent fashion, and, with only a few exceptions, are currently uncapped by any aggregate amount of benefits conveyed. The issuance of tax credits also tends to be done in an ad hoc manner, with unclear economic justification for the costs incurred and without monitoring of the goals described above (i.e., how many jobs in any particular year were created). This leads to an unpredictable, and potentially costly, foregone revenue stream each year.

Uncapped and unpredictable issuance of tax expenditures can have a materially negative fiscal impact. Several states have faced challenges with unexpected levels of expense from tax expenditures, such as Michigan (the Michigan Economic Growth Authority tax credits), Louisiana (tax credit for horizontal natural gas drilling), and New York (“brownfields” tax credits). The examples from these states are not uncommon and they reinforce the uncertainty and risk associated with the establishment of tax credits.

Policy makers in Puerto Rico must understand both the budget implications of current and proposed tax expenditures and be able to manage the size of tax incentives by setting limits on their annual cost and eliminating tax credits with negative returns. The issuance of reliable cost estimates, including a detailed analysis of the budget implications from each tax incentive and annual cost controls will help Puerto Rico avoid unexpected negative outcomes. Otherwise, the Government will remain powerless to manage the cost of these incentives and keep the incentives from growing uncontrollably.

Recognizing the importance of this question to the fiscal sustainability of Puerto Rico, the 2020 Fiscal Plan includes a forecast of gross revenues inclusive of the value of tax credits, along with their associated expenditures. The 2020 Fiscal Plan includes a forecast of gross revenues based on the historical level of certain tax credits claimed on income tax filings for individual filers, regular corporation filers, and incentive tax filers, as provided by Hacienda. As shown in *Exhibit 17*, over eight tax years (2010-2017), tax credits claimed across all tax filers averaged $247 million annually. The Oversight Board requires all reporting going forward to include monthly and quarterly reports as to the gross revenues, tax credits claimed, and the net revenues received for the period of the report.

EXHIBIT 17: TAX CREDITS BY YEAR

Projection ($M)	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Regular Corporations	94	47	87	84	76	65	59	32
Incentive Corporations	135	147	133	158	116	78	70	56
Individuals	59	38	90	69	65	66	61	88
Total Tax Credits Claimed	**288**	**231**	**309**	**310**	**258**	**209**	**190**	**176**
8-Year Average								**247**

SOURCE: Hacienda

The Government should adopt a transparent limit to the amount of tax credits issued and claimed at an amount below $247 million by, for example, capping the notional amount, restricting the number of companies and individuals that can claim credits annually, including sunset provisions, or inserting time bound clauses upon which each tax credit will expire. This is similar to the approach that other states have taken to limit the use or issuance of tax expenditures, including Arizona, California, Florida, Illinois, Massachusetts, Minnesota, New York, Ohio, and Pennsylvania. This limit is separate and incremental to the cash grants that corporations and individuals also receive, which will be captured in Certified Budgets going forward. Future Fiscal Plans must also be expanded to include limitations on foregone revenues due to preferential tax rates and exemptions, including municipal exemptions.

These forecasts must be maintained and updated by leveraging the work that Hacienda has undertaken to produce and maintain a more comprehensive measurement of tax expenditures over time through the annual Tax Expenditures Report. As discussed in more detail in Section *16.3.1*, the publication of the initial Tax Expenditures Report in September 2019 provided, for the first time, better visibility into the full scope of tax expenditures being offered, together with a description and approximate cost of each expenditure. To continue building on this positive first step, the Government must provide an annual update to this report. The Government has also taken initial steps to provide transparency around, and control these expenditures through its proposed reforms to the Incentives Code. Only by explicitly appropriating money for incentives in the Certified Budget, and by setting a limit on the amount that can be spent each year, will tax incentives start to function more like regular spending programs, with the Government retaining control over the cost, and less like open-ended commitments, and enable public debate about the value of this type of spending in light of the various needs on the Island.

5.1.6 Gross-up for COFIM receipts

COFIM is the public corporation that collects the 1% Municipal Sales and Use Tax (SUT) established by law for certain municipalities. The 2020 Fiscal Plan includes projections of this 1% revenue stream, along with exactly offsetting expenses. COFIM is not an entity that receives appropriations from the General Fund, but rather relies solely on municipal SUT.

5.2 Baseline expenditure forecast

The trend of baseline expenditures, before measures and structural reforms, is summarized in *Exhibit 18*.

EXHIBIT 18: MAJOR EXPENDITURE CATEGORIES PRE-MEASURES

Key baseline expenditure drivers (pre-measures), $M

	FY20	FY21	FY22	FY23	FY24	FY25
Payroll (non-federally funded)	2,935	2,949	2,980	3,009	3,041	3,076
Direct operating expenditures (non-federally funded)[1]	1,697	1,711	1,723	1,745	1,773	1,794
CW appropriations[2]	1,004	1,218	1,228	1,189	1,123	1,123
Commonwealth Medicaid expenditures	87	287	1,586	2,165	2,259	2,359
Pension expenditures	2,284	2,332	2,314	2,311	2,309	2,301
Other[3]	2,244	2,393	2,241	2,165	2,126	2,106
IFCU & CW SRF Expenditures[4]	2,466	2,480	2,498	2,503	2,538	2,569
Federally funded expenditures[5]	6,708	6,646	5,339	4,871	4,938	5,007
Total	19,426	20,017	19,909	19,958	20,107	20,336

1 Includes only General Fund operating expenses. Previous versions of Fiscal Plan included SRF and GF
2 Includes appropriations to HTA, UPR, and municipal expenses
3 Includes disaster recovery cost match, restructuring expenditures, loan to PREPA, maintenance capex, enterprise funds, disbursements to entities outside the fiscal plan, and other non-recurring and recurring costs; excludes adjustments for expenditure gross up
4 IFCU and CW SRF expenditures were previously included in 'Other' expenditures; for IFCUs, it includes all fund types (Federal Funds, General Funds, and SRF)
5 Includes federal funds for payroll, direct operating expenditures, Medicaid, and social programs; excludes Independently Forecasted Component Units

5.2.1 General fund payroll and non-personnel operating expenditures

Payroll expenditures: Despite progress made through the FY2021 budget process, consistent granular payroll data continues to be a challenge for the Government. FY2018 payroll numbers reflect actual expenditures where available and the Certified Budget in cases where actual data was not available (adjusted to reflect reapportionments among agencies). FY2019 was assumed to be equal to FY2018 given the Fiscal Plan Compliance Act, which enacted a payroll freeze except for certain agency-specific adjustments. Beginning in FY2020, base payroll has been assumed to grow by Puerto Rico inflation. Any reduction to baseline payroll expenditure projections from attrition, absenteeism, or workforce reductions will be captured through fiscal measures.

Non-personnel operating expenditures: Non-personnel operating expenditures in FY2019 were also assumed to be equal to FY2018 budgeted levels. Thereafter, non-personnel operating expenditures are assumed to grow by Puerto Rico inflation, with select adjustments as necessary (e.g., for reapportionments).

5.2.2 Special Revenue Funds

Commonwealth agency Special Revenue Fund (SRF) operational expenditures: The Commonwealth funds a significant portion of its expenses with Special Revenue Funds and previously did not report on these expenses transparently in a consistent manner. Given that SRF revenues and expenditures are not part of the General Fund for budgeting purposes, they are not included in the General Fund budget resolutions approved by the Legislature. However, the Oversight Board has certified SRF expenditures starting with the FY2019 budget process, with the objective of applying controls and reporting requirements to ensure transparency and accountability for these revenues and expenditures. With data made available by the Commonwealth, the baseline level of SRF expenses of Commonwealth agencies (excluding IFCUs) has been updated. Given the mandate of the Office of the CFO to

place controls on SRF expenditures, expenses are forecasted to be equal to the estimated revenues in each year.

Independently Forecasted Component Unit (IFCU) operational expenditures: Most IFCU payroll and non-payroll expenses grow by inflation, with exceptions for certain expense categories (e.g., healthcare costs grow with medical inflation, variable costs that grow in line with revenues).

The baseline expenditures include **municipality and public corporation PayGo, COFIM, and FAM expenditures**, including all the conditions outlined in *Section 5.1.4.*

5.2.3 Other federal funding

Most federal funds received by the Commonwealth are passed through to residents directly in the form of social benefits (e.g., TANF, WIC), but federal funds are also used to cover operating expenditures in many agencies. Expenditures related to pass-through federal funds are set equal to the associated revenue stream. Baseline expenditures related to operating expenditures are set based on the FY2018 federal funds budget reported by the Government and grow with inflation (and in some cases population). In the case of Title I, revenues will grow with growth in total federal funding - presumed to track US inflation - but decline with decreasing enrollment, which is the most salient determinant of Puerto Rico's annual allocation. At the same time, the 2020 Fiscal Plan assumes fixed costs associated with providing these services may not decline at the same rate (given historical Commonwealth behavior of maintaining infrastructure such as schools and program staff despite population decline).

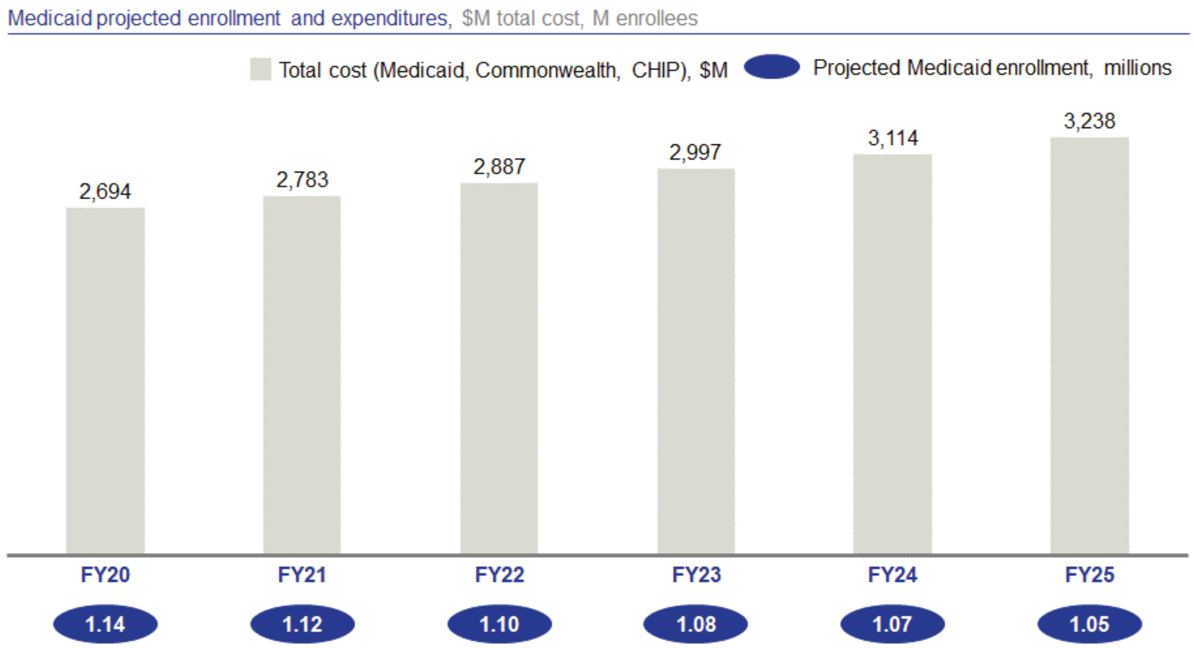
5.2.4 Medicaid expenditures

Medicaid costs are projected to reach nearly $3.4 billion annually by FY2025. These costs are primarily driven by the weighted-average cost per member per month (PMPM) multiplied by the estimated number of people enrolled in the Medicaid (federal and Commonwealth-qualified), CHIP, and Platino dual-eligible programs. Projections also include other direct health expenditures (e.g., Hepatitis C, HIV, and pulmonary programs) that do not flow through managed care. These costs are exclusive of non-medical administrative costs to ASES and the Department of Health.

PMPM costs are projected to grow at 4.5% in FY2020, followed by an increase to an annual growth rate of 5.5% in FY2022, as a result of a longer recovery from depressed utilization caused by Hurricane Maria and the impact of COVID-19. In the long term, costs increase according to an age-mix-adjusted PMPM growth rate, which reflects a shift to a younger enrollment population (see *Section 6.1*).

Enrollment rates are primarily tied to overall population decline. The large drop-off in enrollment between FY2018 and FY2020 mainly reflects the end to the auto re-enrollment period that was put in place after Hurricane Maria, a period during which many enrollees either left the Island or ceased to qualify for coverage under current thresholds. The baseline projects a return to pre-hurricane rates of enrollment in FY2020, as in the 2019 Fiscal Plan. Additional changes in enrollment may be driven by the COVID-19 pandemic or other unexpected events.

EXHIBIT 19: PROJECTIONS FOR MEDICAID AND CHIP BASELINE COST AND ENROLLMENT (EXCLUDING PLATINO)



Note: Only includes Medicaid (CHIP, Commonwealth- and federally-funded). Excludes Platino dual-eligible, as well as non-direct premium costs (e.g., HIV/PDP, Health Insurance Provider Fee, Air Ambulance, MC21 Administrative Fee, Super Utilizers, and Pulmonary).

Other Commonwealth Medicaid expenditures, which include, HIV/PDP, Air Ambulance, MC21 administrative fee, Super Utilizers, and Pulmonary, among others, are projected to grow at the rate of Puerto Rico healthcare inflation. Separate from those costs is the Health Insurance Tax (HIT), calculated each year by the Federal Government and estimated here to be 1.80% of the prior year's total premiums.[27] The Further Consolidated Appropriations Act, 2020 repealed the HIT requirement. Thus, the 2020 Fiscal Plan only reflects the estimated HIT fee anticipated to be required to be paid in FY2021 on FY2020 premium expenditures. Thereafter, the HIT fee is eliminated from projections.

Platino dual-eligible program expenditures were estimated using a consistent $10 PMPM over FY2019-FY2023 representing payment for wrap-around services supplementing main Medicare coverage (from FY2024 onwards, this cost grows by the PMPM growth rate). Enrollment is projected to be affected similarly to Medicaid enrollment. Platino costs are expected to total nearly $30 million in FY2020, decline slightly to $29 million by FY2023, and then grow again.

5.2.5 Commonwealth pension expenditures

Pension costs: Projections rely on demographic and actuarial estimations for Employees' Retirement System (ERS), Teachers' Retirement System (TRS), and Judiciary Retirement System (JRS) populations and benefit obligations. From FY2020-FY2025, costs are projected to grow slowly but remain approximately $2.3 billion per year. Since FY2018, pension benefits for all plans have been paid on a pay-as-you-go basis.

27 See Sec 4003 of FOURTH CONTINUING APPROPRIATIONS FOR FISCAL YEAR 2018 at https://www.congress.gov/115/plaws/publ120/PLAW-115publ120.pdf. Based on actuarial estimates provided by ASES.

5.2.6 Appropriations

Municipalities: Baseline municipal appropriations are projected to remain constant at ~$220 million, which represents the FY2018 appropriation level exclusive of a $78 million *one-time* allotment to municipalities made in the aftermath of Hurricanes Irma and Maria.

University of Puerto Rico (UPR): The UPR appropriation baseline is $717 million in FY2019 and remains ~$717 million from FY2020-FY2023.

Highways and Transportation Authority (HTA): The Commonwealth provides HTA with an annual appropriation for capital expenditures and other costs. The 2020 Fiscal Plan provides that the HTA appropriation will be variable and set so as to cover HTA's forecasted annual deficits (after operating expenses and capital expenditures), as well as fund an "emergency reserve" account for the agency. The target size of the emergency reserve is initially set at ~$250 million, in-line with best practices in other US jurisdictions, and will be adjusted each year in order to keep pace with inflation. As a result, the 2020 Fiscal Plan includes an average annual appropriation of ~$219 million over FY2021-FY2023, with ~$51 million per year funding OpEx deficits, ~$123 million per year funding CapEx deficits, and ~$45 million per year funding the "emergency reserve." Thereafter, the annual appropriation is forecasted to decline as HTA operating surpluses are available to fund capital account deficits. Over FY2024-FY2049, the 2020 Fiscal Plan includes an average annual appropriation of ~$59 million, with ~$54 million per year funding CapEx deficits and ~$5 million per year funding the "emergency reserve." The 2020 Fiscal Plan also encourages HTA to prioritize and accelerate project delivery, focusing on the projects of utmost strategic importance to the residents of Puerto Rico.

5.2.7 Other operating & capital expenditures

Utilities: The 2020 Fiscal Plan uses the estimated billings from PREPA and PRASA on an agency level, which are then projected to grow over the period of FY2021-FY2030 according to forecasted utility rates (and then according to inflation thereafter).

Insurance (PRIMAS): The Commonwealth bears costs related to insurance premiums (e.g., property insurance, liability insurance). Government reporting on these costs has not been transparent or consistent over time (e.g., not all agencies report these costs independently of other operating expenses, reporting is not consolidated across General Fund and Special Revenue Funds). The Government reports that insurance costs have increased from FY2018 to FY2020 due to Hurricanes Maria and Irma. Given the potential risk of future hurricanes, the baseline expenses related to insurance have been increased, but the Government must improve reporting on these expenses going forward so that they can be managed appropriately.

Capital expenditures: Centrally-funded General Fund maintenance and capital expenditures of the Commonwealth (excluding PREPA, PRASA, HTA self-funded capital expenditures and one-time transfers) are expected to grow by inflation from a baseline of ~$400 million in FY2018. In FY2021, ~$59 million of the baseline expenses will be appropriated to HTA (as part of the total appropriations), with the remaining ~$308 million for use by the Commonwealth. HTA's capital expenditure funds will be used to support reconstruction, maintenance, traffic reduction, completion of the strategic network, and P3-related expenditures. Other General Fund capital expenditures will be allocated to priority projects. The 2020 Fiscal Plan includes annual Special Revenue Fund capital expenditures of $50 million.

5.2.8 Reconstruction and restructuring related expenditures

Cost-share for disaster relief funding: Federal funds for FEMA's public assistance and hazard mitigation programs typically require a local match from the entity receiving them

(anywhere from 10-25% of funds). In the case of Puerto Rico, the 2020 Fiscal Plan projects that the Commonwealth will need to cover an estimated ~10% of federal public assistance funds, amounting to $3.5 billion from FY2018-FY2032. The instrumentalities will shoulder a further $1.2 billion in total cost-match expenditures during the same period. A portion of the Commonwealth and instrumentalities' cost-match expenditures are projected to be covered by CDBG funds from FY2020 to FY2032, which amounts to $2.3 billion. Meanwhile, the 2020 Fiscal Plan maintains $600 million (from FY2020 to FY2032) in reserve funds in case less CDBG funding is available than is currently projected. If these funds are unspent, they would accumulate and be utilized as part of an emergency reserve fund going forward.

Restructuring-related costs: Commonwealth restructuring-related expenditures are projected at $619 million for the period FY2020 to FY2024, and are comprised of all professional fees, including those of the Unsecured Creditors' Committee, the Retiree Committee, the Government (mostly AAFAF), and the Oversight Board. The estimate for professional fees in the 2019 Fiscal Plan was developed, in conjunction with the Government, by analyzing FY2018 and FY2019 run-rate billings based on available information and soliciting input from certain professionals. Fees were benchmarked versus comparable restructuring situations that yield an average professional-fee-to-funded-debt ratio of 2.08% relative to 1.68% projected for the Commonwealth (*Exhibit 20*). In total, for the period from FY2018 to FY2024, the restructuring-related expenditures projection in the 2020 Fiscal Plan continues to be ~$1.1 billion (without change from the 2019 Fiscal Plan), however, uncertainty stemming from the series of recent natural disasters and ongoing COVID-19 pandemic have drawn out the restructuring process longer than anticipated. Separately, the Oversight Board's operating costs will remain at $58 million per year from FY2020 to FY2026 (as opposed to $75 million per year in the 2019 Fiscal Plan).

EXHIBIT 20: PROJECTED PROFESSIONAL FEES RELATIVE TO OTHER MAJOR RESTRUCTURINGS

Professional fees for restructuring

	Date filed	Outstanding debt, $	Total fees and expenses, $	Fees to funded debt, %
City of Detroit, Michigan	Jul. 2013	6,400,000,000[1]	177,910,000	2.8
Residential Capital, LLC	May. 2012	15,000,000,000	409,321,308	2.7
Sabine Oil & Gas Corp.	Jul. 2015	2,800,000,000	78,553,223	2.8
Caesars Entertainment Operating Company	Jan. 2015	18,000,000,000	258,278,005	1.4
Lehman Brothers Holdings Inc.	Sep. 2008	613,000,000,000	956,957,469	0.2
Lyondell Chemical Company	Jan. 2009	22,000,000,000	205,932,292	0.9
American Airlines	Nov. 2011	11,000,000,000	391,637,858	3.6
Washington Mutual, Inc.	Sep. 2008	8,000,000,000	271,085,213	3.4
Edison Mission Energy	Dec. 2012	5,000,000,000	96,244,628	1.9
Energy Future Holdings Corp.	Apr. 2014	40,000,000,000	450,110,233	1.1
Puerto Rico	**2017**	**64,000,000,000**	**1,075,000,000**	**1.7**

Summary Statistics

Avg.	2.08%
Max	3.56%
Min	0.16%
Med	2.33%

Puerto Rico involves added complexity as the largest public sector restructuring in the history of the United States

1 Excludes pensions and other retirement liabilities

Emergency reserve: The Commonwealth must build up an emergency reserve of $1.3 billion, or ~2.0% of FY2018 GNP, by reserving $130 million per year for 10 years, which started in FY2019. The methodology supporting this reserve is informed by guidance provided

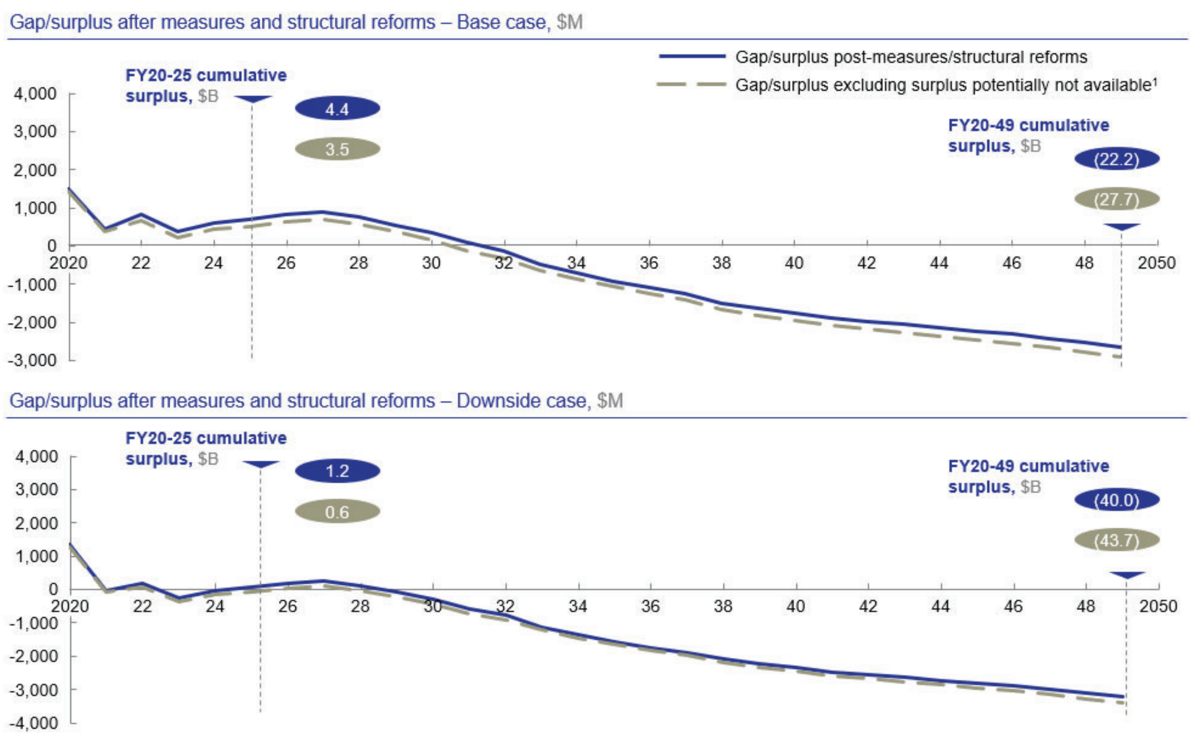
to other Caribbean islands by the International Monetary Fund in defining an adequate emergency reserve (2-4% of GNP, accumulated at 0.5% per year).[28] Restrictions on the use of this fund must ensure that it is a true emergency reserve.

For each of the gross-up revenue items included in *Section 5.1.5* and *Section 5.1.6*, an equivalent expenditure is included in the baseline expense forecast.

5.3 Surplus potentially not available for Commonwealth

The 2020 Fiscal Plan financial projections show the surplus generated by all entities covered by the Commonwealth Fiscal Plan. However, some of the surplus is generated by Commonwealth public corporations, and the Commonwealth's ability to access such surplus amounts could be problematical without further legislative action. In particular, the surplus generated by the State Insurance Fund Corporation (SIFC) and the Cardiovascular Center Corporation of Puerto Rico and the Caribbean may be inaccessible. As such, the 2020 Fiscal Plan also represents what the surplus would be if these funds were inaccessible (*Exhibit 21*).

EXHIBIT 21: SURPLUS POTENTIALLY NOT AVAILABLE FOR COMMONWEALTH



1 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action

Chapter 6. Long-term projections and Debt Sustainability Analysis (DSA)

While the 2020 Fiscal Plan emphasizes actions to be taken in the period from FY2020-FY2025, the Oversight Board's ultimate goal is to put Puerto Rico on a path towards long-term fiscal balance. However, based on current projections, this long-term fiscal balance is not

28 IMF Bahamas Article IV report published March 22, 2018

achieved due to the impacts of COVID-19 and the scale of investment required to combat the effects of the pandemic, as well as the lack of progress to date on structural reform implementation. Nevertheless, long-term projections remain an important component in evaluating the 2020 Fiscal Plan's implementation and in the resulting Debt Sustainability Analysis (DSA). The outcome of the DSA pertains to traditional debt only, and not to other types such as contingent or no-default debt. Given large swings in debt sustainability shown in the sensitivity analysis, the amount of sustainable debt is contingent on several factors. Finally, the debt sustainability analysis should be adjusted going forward to account for new facts when available and errors when proven.

The 2020 Fiscal Plan is a 30-year plan, as any restructuring of the Commonwealth's legacy obligations will not extend beyond 30 years. In addition, longer-term projections involve even further forecasting risk.

6.1 Long-term macroeconomic, revenue, and expenditure projections

While GNP trends are volatile in the short term due to COVID-19, as well as the impact of the hurricanes and earthquakes, after FY2025 real GNP growth is negative and gradually declines as disaster relief funding drops off considerably and structural reform growth rates are muted. Nominal growth is 1.0-2.0%. The population is estimated to steadily decline at an average rate of ~1.1% annually, largely due to declining fertility rates. Inflation settles at a long-term run-rate of 1.4-1.9% as it is expected to gradually converge to mainland forecasts.

Most revenues are projected to grow with nominal GNP in the long term.[29] This includes SUT, corporate income tax, personal income tax, non-resident withholding not paid by Act 154 entities and most General Fund revenues. Exceptions include:

- **Alcoholic beverages and cigarette-related tax revenues**, which are expected to grow by inflation and population. This assumption is supported both by relatively constant alcohol consumption in growing economies along with the long-term decline in cigarette consumption both in Puerto Rico and the US mainland.
- **Rum excise on off-shore shipments,** is expected to grow by US mainland population and is partially driven by the statutory waterfall by which rum excise taxes are paid into the General Fund.
- **Non-resident withholding (NRW) and Act 154 revenues,** which will face declines due to US tax reform, supply chain diversification, and patent expirations. This decline had begun during FY2020, with incremental declines forecasted in each year through FY2023 (41.7% cumulative decline versus FY2018 baseline). No further declines are anticipated through FY2027; however, additional losses of Act 154 revenue is expected in FY2028-FY2031, such that FY2031 revenues are projected to be 64.4% below baseline. This leads to a steady state of $859 million in annual Act 154 revenues beginning in FY2031. NRW payments made by Act 154 payers are projected to follow a similar trajectory, though with a shallower decline. After reaching steady state in FY2031, NRW payments are projected at $267 million (42.7% below baseline). NRW revenues not related to Act 154 payers continue to grow with nominal GNP.
- **Independently Forecasted Component Units (IFCU) revenues:** IFCU revenues are projected on a line item basis and grow by the same values as in the short-term projections (largely by nominal GNP, with exceptions for those related to healthcare, population, or other factors). The only IFCU with a different short-term and long-term

29 This methodology is consistent with general IMF forecasting approaches and is intended to capture the overall change in consumption, investment and production within the economy

revenue projection is the State Insurance Fund Corporation, for which the Fiscal Plan projects an increase in revenues related to disaster recovery for FY2020-FY2032, reflecting the short-term increase in construction sector activity.

Federal fund revenues grow based on historical and statutory appropriations. **Medicaid** receives the most significant federal funding. The standard cap for Medicaid matching funds grows by the medical services component of CPI-U, CHIP funding grows proportional to growth of premiums and enrollment. However, several significant sources of federal funding for Medicaid (e.g., ACA, BBA, Further Consolidated Appropriations Act, Families First) are only legislated through the first quarter of FY2022. This creates a "funding cliff" whereby the share of Medicaid funding borne by the Commonwealth increases from $633 million in FY2021 to $2,447 million in FY2023. While additional federal funding for Medicaid may be provided in the future, the 2020 Fiscal Plan model only reflects currently-legislated federal funding amounts. Additional revenue for the Medicaid program comes from municipal intra-governmental transfers, which remain constant, and prescription drug rebates, which grow proportionally to healthcare costs and population.

Just as most revenues grow by GNP, most **expenditures grow by standard inflation** after FY2025. Exceptions include:

- **Medicaid premiums** grow at a faster pace than standard inflation and are instead grown by a PMPM growth rate and population change. On average, costs per demographic group will increase consistent with historical PR healthcare costs, and in line with external data. However, the latest projections suggest the magnitude of this trend will not be as significant as reflected previous Fiscal Plans. From FY2026-FY2049, the age-mix-adjusted PMPM growth rate is expected to decline from 5.30% in FY2026 to 4.75% in FY2049. This projection is driven by two factors. First, current demographic projections suggest that the population is not aging as fast as previously projected, which causes declines in overall healthcare utilization. Second, general cost efficiency spillovers from the US mainland are expected to exert downward pressure on PMPMs. In the near-term, PMPM growth is expected to be muted in FY2020 due to lower utilization driven by the COVID-19 pandemic. Social distancing and stay-at-home guidance have lowered utilization of the healthcare system. Between FY2020 and FY2022, the PMPM growth rate is expected to increase from 4.5% to 5.5% as utilization recovers from both the COVID-19 pandemic and persistent impact from Hurricane Maria. Non-premium costs, such as administrative and payroll costs grow by standard inflation in the long-term**.**

- **Capital expenditures** are anticipated to rise to 1.9% of GNP (in line with the mainland average) by FY2038, increasing the annual Commonwealth average to ~$650 million over FY2038-FY2049, as Puerto Rico must sustain a higher level of maintenance and rely on its own funding for capital investments (rather than disaster relief funding). **Cost match for disaster-related federal funding** increases to an average of ~$116 million from FY2026 to FY2032, as the Commonwealth pays the entirety of the cost match during that period. The Commonwealth is not responsible for the portion of funds allocated to instrumentalities (e.g., PREPA, PRASA, HTA).

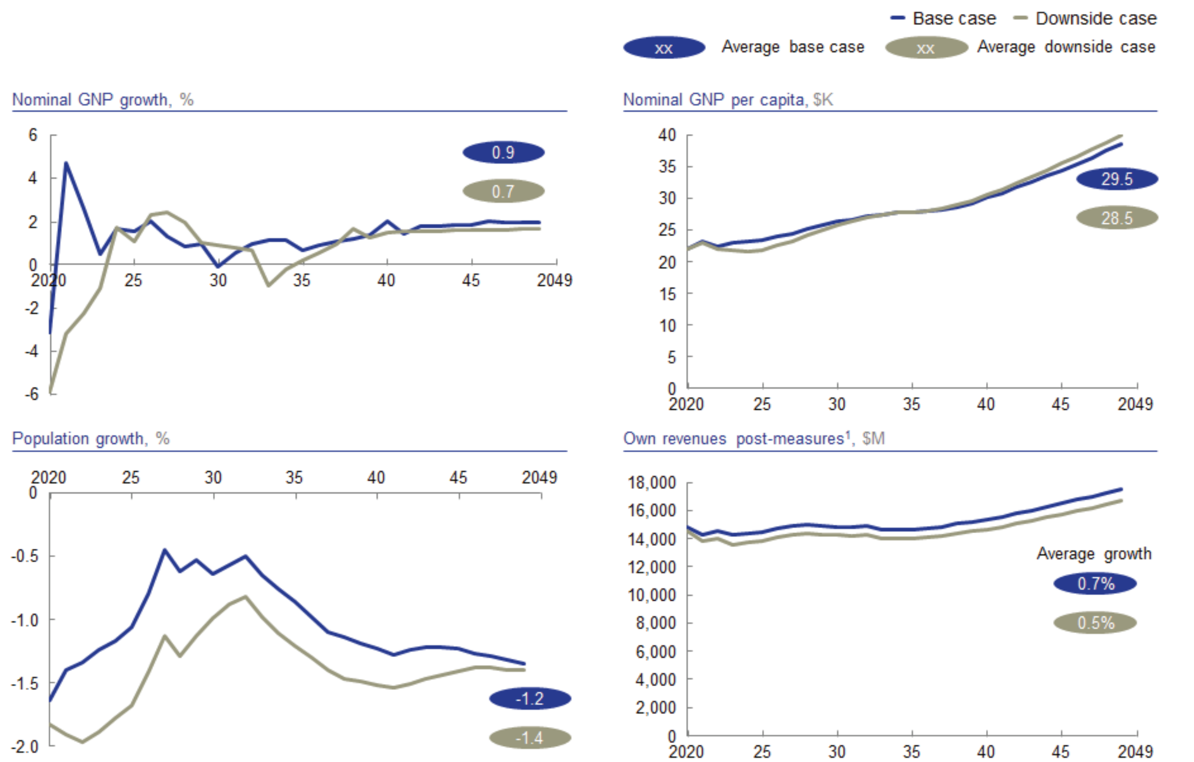
- **Independently Forecasted Component Units (IFCU) expenditures** are forecasted on a line item basis. Most grow with standard Puerto Rico inflation with some exceptions, such as healthcare- or claims-related expenditures. Over the long-term, the expenses of healthcare-related IFCUs (e.g., ASEM, Cardio) are projected to grow faster than revenues, creating a deficit. This Fiscal Plan assumes deficits related to healthcare will be funded by the Commonwealth.

Fiscal measures grow by their relevant macroeconomic indicator (e.g., revenues by nominal Puerto Rican GNP, expenditures by Puerto Rican inflation, healthcare measure by health inflation and population).

A downside scenario based on COVID-19 has been included in this 2020 Fiscal Plan given that the pandemic has created significant uncertainty in near-term financial projections. As such, a downside scenario is presented to showcase the potential trajectory of the Island in the case where the spread of the virus is greater and/or the economic impact is more severe than anticipated in the base case. The downside scenario fundamentally alters the Island's economic condition and therefore impacts long-term projections.

The long-term macroeconomic projections for both the base case and downside case show trends as below (*Exhibit 22, Exhibit 23, Exhibit 24,* and *Exhibit 25*).

EXHIBIT 22: 30-YEAR FINANCIAL PROJECTIONS



1 Own revenues includes all Commonwealth-collected revenues and excludes all federal transfers and gross up revenues; includes impact of COFINA settlement

EXHIBIT 23: LONG-TERM FISCAL PLAN PROJECTIONS POST-MEASURES AND STRUCTURAL REFORMS (BASE CASE)

Financial projection detail post-measures and structural reforms, units as labeled

Projection	FY2025	FY2030	FY2035	FY2040	FY2045	FY2049
Population, thousands	2,813	2,701	2,590	2,427	2,268	2,152
Population growth rate, %	(1.3%)	(0.8%)	(1.1%)	(1.4%)	(1.3%)	(1.3%)
Real GNP growth, %	**(0.1%)**	**(0.5%)**	**(1.2%)**	**(0.4%)**	**(0.3%)**	**(0.2%)**
Nominal GNP, $M	**69,544**	**75,679**	**76,292**	**80,954**	**87,465**	**93,269**
Nominal GNP per capita, $	24,720	28,023	29,453	33,353	38,568	43,349
Nominal GNP per capita growth, %	2.4%	1.7%	1.3%	2.9%	2.9%	3.0%
Inflation, %	**1.2%**	**1.5%**	**1.5%**	**1.9%**	**1.9%**	**1.9%**
Disaster funding, $M	5,843	3,874	-	-	-	-
Revenues[1], $M	**19,724**	**20,654**	**20,941**	**22,192**	**23,970**	**25,589**
Commonwealth revenues	14,604	15,119	14,944	15,652	16,796	17,847
Federal transfers	5,120	5,535	5,997	6,540	7,175	7,742
Expenditures[1], $M	**(19,043)**	**(20,307)**	**(21,872)**	**(23,977)**	**(26,226)**	**(28,250)**
Commonwealth-funded expenditures	(14,035)	(14,870)	(15,956)	(17,481)	(19,049)	(20,466)
Federally-funded expenditures	(5,007)	(5,437)	(5,916)	(6,497)	(7,177)	(7,784)
Gap / surplus, $M	**681**	**347**	**(931)**	**(1,785)**	**(2,256)**	**(2,661)**
Contractual debt service payments[2]	(1,697)	(1,904)	(1,653)	(1,049)	(163)	(50)
Net gap / surplus, $M	**(1,016)**	**(1,557)**	**(2,584)**	**(2,834)**	**(2,419)**	**(2,711)**
Surplus potentially not available[3], $M	172	220	152	176	219	256

1 Revenues and expenditures excluding gross up adjustments
2 Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only and does not represent anticipated future payments on restructured debt. Includes GO, PBA, CCDA, PRIFA, PFC, ERS, PRIDCO. The 2020 Fiscal Plan does not assume any predetermined outcome of ongoing litigation with respect to GO bonds
3 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action

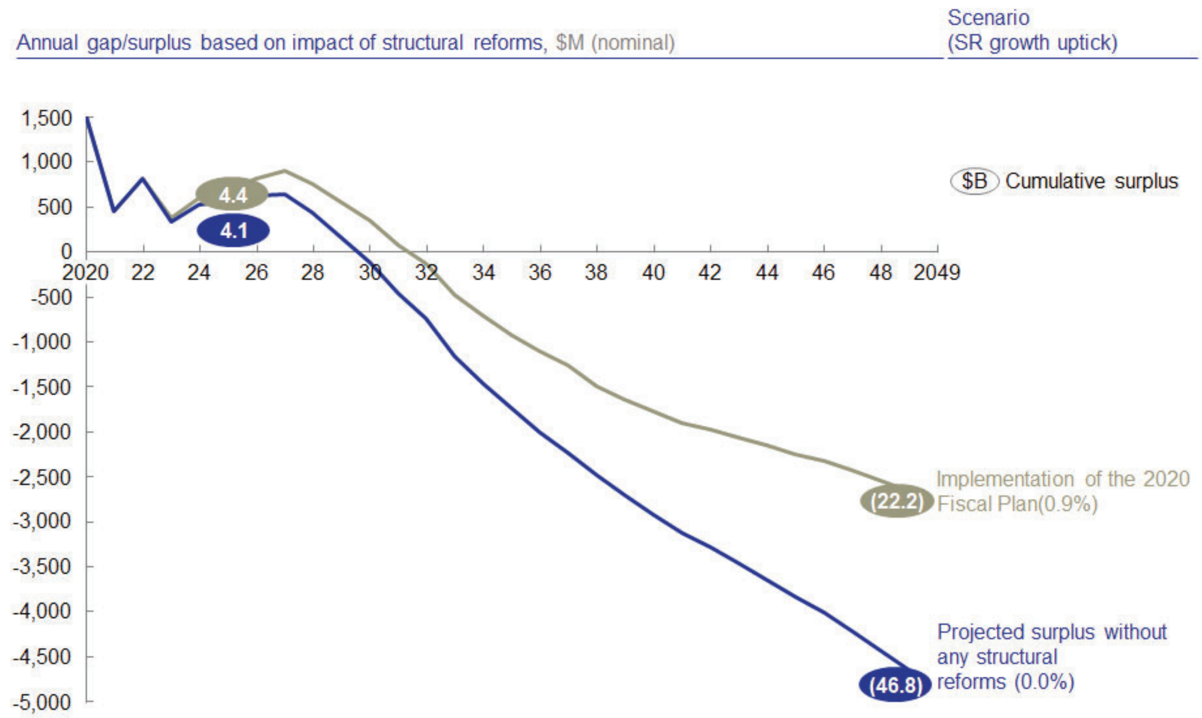
EXHIBIT 24: LONG-TERM FISCAL PLAN PROJECTIONS POST-MEASURES AND STRUCTURAL REFORMS (DOWNSIDE CASE)

Financial projection detail post-measures and structural reforms, units as labeled

Projection	FY2025	FY2030	FY2035	FY2040	FY2045	FY2049
Population, thousands	2,761	2,601	2,473	2,300	2,136	2,020
Population growth rate, %	(1.7%)	(1.0%)	(1.2%)	(1.5%)	(1.4%)	(1.4%)
Real GNP growth, %	**(0.1%)**	**(0.6%)**	**(1.3%)**	**(0.4%)**	**(0.3%)**	**(0.2%)**
Nominal GNP, $M	**64,220**	**69,895**	**70,188**	**74,443**	**80,422**	**85,761**
Nominal GNP per capita, $	23,256	26,877	28,383	32,361	37,651	42,464
Nominal GNP per capita growth, %	2.8%	1.9%	1.4%	3.1%	3.0%	3.1%
Inflation, %	**1.2%**	**1.5%**	**1.5%**	**1.9%**	**1.9%**	**1.9%**
Disaster funding, $M	5,843	3,874	-	-	-	-
Revenues[1], $M	**18,923**	**19,740**	**19,955**	**21,125**	**22,803**	**24,339**
Commonwealth revenues	13,827	14,258	14,027	14,669	15,727	16,706
Federal transfers	5,096	5,482	5,928	6,456	7,076	7,634
Expenditures[1], $M	**(18,879)**	**(20,040)**	**(21,525)**	**(23,493)**	**(25,635)**	**(27,569)**
Commonwealth-funded expenditures	(13,884)	(14,631)	(15,646)	(17,042)	(18,513)	(19,846)
Federally-funded expenditures	(4,995)	(5,410)	(5,879)	(6,451)	(7,122)	(7,723)
Gap / surplus, $M	**43**	**(300)**	**(1,571)**	**(2,368)**	**(2,832)**	**(3,230)**
Contractual debt service payments[2]	(1,697)	(1,904)	(1,653)	(1,049)	(163)	(50)
Net gap / surplus, $M	**(1,654)**	**(2,205)**	**(3,223)**	**(3,417)**	**(2,994)**	**(3,279)**
Surplus potentially not available[3], $M	118	160	89	108	147	180

1 Revenues and expenditures excluding gross up adjustments
2 Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only & does not represent anticipated future payments on restructured debt. Includes GO, PBA, CCDA, PRIFA, PFC, ERS, PRIDCO. The 2020 Fiscal Plan does not assume any predetermined outcome of ongoing litigation with respect to GO bonds
3 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action

EXHIBIT 25: ANNUAL GAP/SURPLUS BASED ON IMPACT OF STRUCTURAL REFORMS



The 2020 Fiscal Plan shows minor short-term surpluses driven by significant federal relief as well as fiscal measures and structural reforms. Long-term deficits are driven by healthcare costs that outpace GNP growth, lack of robust structural reforms, phase out of disaster relief funding, and declining Act 154 revenues.

While the 2020 Fiscal Plan projects deficits from FY2032 onward, the Government will be required to take additional measures that go beyond the five-year framework of this 2020 Fiscal Plan as the Puerto Rico Constitution requires the Government to operate within a framework of fiscal balance. Accordingly, what follows are a set of options that future governments can consider in order to obtain fiscal balance in the out-years. Some of these reforms – which would reduce deficits and therefore make funds available for a variety of potential uses, including investment in the people of Puerto Rico – have been proposed by the Oversight Board, but have not been adopted, and the Oversight Board cannot implement them on its own.

- **Private sector labor reform,** generating an additional 0.50% GNP growth over two years, by repealing Law 80, reducing paid leave, and eliminating the Christmas Bonus. Key reforms could require incentives, such as wage subsidies for low-income workers and training programs to address identifiable skills gaps. The reform is projected to increase the 30-year surplus by ~$10 billion if implemented after 10 years (FY2030) and by ~$3 billion if implemented within 20 years (FY2040).

- **Ease of Doing Business reform,** generating an additional 0.15% GNP growth, based on instituting Trading Across Borders reform to improve customs processes and congestion and repealing restrictive laws (e.g., Laws 21 and 75 dictating terms for terminating commercial supplier relationships). The 30-year surplus is projected to increase by ~$3 billion if implemented after 10 years (FY2030) and by ~$850 million if implementation lags by 20 years (FY2040).

- **Overhaul of the tax system of Puerto Rico** to stimulate growth, requiring short-term investment (lower revenues in short-term) for long-term growth benefits up to 0.5% spread over five years. The reform is projected to increase the 30-year surplus by ~$9

billion if implemented after 10 years (FY2030) and by ~$2 billion if implementation lags by 20 years (FY2040).

- **Imposing a cap on total healthcare expenditure growth** at 2% above standard inflation is projected to result in savings of ~$14 billion by FY2049 if implemented in FY2030 and ~$3 billion if implemented in FY2040.
- **Securing additional permanent federal funding for Medicaid** of ~$1 billion per year (and growing with inflation) is projected to increase the 30-year surplus by ~$27 billion if begun in FY2030 and ~$11 billion if begun in FY2040.

Risks to the long-term projections in the 2020 Fiscal Plan. While the 2020 Fiscal Plan projects that ~$8 billion surplus will be generated through FY2020-2031, there are several variables that have a material impact on the long-term financial projections in the 2020 Fiscal Plan. The impacts of COVID-19 remain highly uncertain at this stage and could prove to be longer-lasting and greater than anticipated. Moreover, revenues could be compromised through lower growth generated by delayed or not implemented structural reforms, lower than expected federal funding, and/or less efficient spending on capital than projected. Both revenues and expenditures could be impacted by demographic shifts not yet seen on the Island, and in the areas of government expenditures:

- **Lack of implementation of healthcare reform measures** could affect the long-term projections of the 2020 Fiscal Plan. If healthcare reform measures are not implemented starting in FY2021, the surplus would decrease by $14 billion.
- **Implementation risk of agency efficiency measures** also exists. For example, if only 50% of the projected run rate agency efficiency measures are achieved, the 30-year surplus would decrease by $21 billion. Similarly, if only 75% of the projected run rate agency efficiency measures are achieved, the 30-year surplus would decrease by $11 billion.

6.2 Debt Sustainability Analysis (DSA)

The DSA is intended to provide a framework for assessing the long-term capacity of the Government to pay debt service on its bonded debt. Debt levels post-restructuring need to be sustainable over the long-term and consistent with both a minimal risk of default on the restructured debt and a recovery of market access for future new money borrowings for ongoing infrastructure investment. The analysis begins with the 2020 Fiscal Plan and is then informed by the debt sustained by the most appropriate peer group against which to benchmark Puerto Rico. The DSA then applies rating agency metrics for that benchmark group to Puerto Rico to arrive at an assessment of what debt levels are sustainable in light of long-term projections and the peer metrics. Net tax-supported debt is defined as debt payable from statewide taxes and other general resources, net of obligations that are self-supporting from pledged sources other than state taxes or operating resources (such as utility or local government revenues). Prior to the enactment of PROMESA, Puerto Rico had approximately $45 billion in tax-supported debt with a declining economy and no guarantee of sustained federal funding. Post-COFINA restructuring, Puerto Rico net tax supported debt outstanding was approximately $41 billion, comprised of GO, PBA, COFINA, PRIFA, HTA, CCDA, ERS, Public Finance Corporation (PFC), and other intergovernmental loans. Net of the restructured COFINA debt, Puerto Rico's other net tax-supported debt outstanding totals approximately $28 billion.

The 2020 Fiscal Plan's DSA has been fundamentally re-evaluated and adjusted to reflect accurately Puerto Rico's post-COVID-19 economic reality. The contours of the post-COVID-19 economy are uncertain but have already caused a significant global economic recession and could have both positive and negative effects on various industries vital to Puerto Rico's local

EXHIBIT 110: MEDICAID REFORM REQUIRED IMPLEMENTATION ACTION

Required implementation action	Deadline
▪ Incorporate language requiring participation in DRG-based payment model in MCO contract	▪ May 2020
▪ Define key performance indicators and savings target measures for Medicaid program integrity initiatives (e.g., fraud, waste, and abuse reduction, enrollment verification)	▪ June 2020
▪ Complete assessment for the need for additional third party vendors to develop an Asset Verification System and analytics for fraud, waste, and abuse reduction and enrollment verification	▪ June 2020
▪ Pilot DRG-based payment model and revise design based on performance	▪ July 2020
▪ Identify and design additional value-based incentives (e.g., direct pay-for-performance quality bonuses) for inclusion in future MCO agreements, including timeline and plan for implementation	▪ December 2020
▪ Develop plan to incorporate Medicaid program integrity key performance indicators and savings targets into future MCO contracts, including design for associated incentives and penalties	▪ December 2020
▪ Complete Phase II of PRMMIS development and migrate financial and enrollment processes to the platform	▪ June 2021
▪ Draft plans to meet PERM and MEQC requirements and receive CMS approval	▪ June 2021
▪ Launch DRG-based payment model	▪ July 2021

Chapter 16. Tax compliance and fees enhancement

16.1 Current state and future vision for tax environment

Puerto Rico's current tax system suffers from its structural complexity, instability, internal inconsistency, inefficient administration, and inadequate enforcement. There have been at least 11 major revisions to Puerto Rico's tax code since 1994, including at least six adjustments since 2013.[256] This has allowed for persistent problems with non-compliance, worsened by a lack of an integrated approach to addressing non-compliance. Top marginal tax rates are high relative to US federal and state taxes. Much of the Government's revenue is highly concentrated in collections from a handful of multi-national corporations. The Government has also issued an assortment of credits, deductions, and incentives that add to the system's complexity and further erode the tax base. Furthermore, audit and enforcement activity in recent years has been limited, which creates risks of increased levels of non-compliance.

Due to its compliance and collections issues, the Commonwealth has not been able to collect as many revenues from taxes as it should each year.

In response to these challenges, the Government has taken actions to improve tax compliance. It has taken steps to improve information reporting to better detect under-reporting of income and over-usage of deductions and credits, notably through recent changes to information reporting requirements included in Act 257-2018. These changes create greater interdependencies among taxpayers and the information they are obligated to report, which is expected to enable greater oversight and verification of the information being reported to the

[256] Reforms include: Act 40-2013, the “Tax Burden Redistribution and Adjustment Act;” Act 120-2014, the “Small and Medium Business Job Generation and Retention Act;” Act 72-2015, the “Adjustments to the Internal Revenue Code of 2011;” Administrative Orders 2017-01 and 2017-05; and Act 257-2018, the “2018 Puerto Rico Tax Reform Act.”

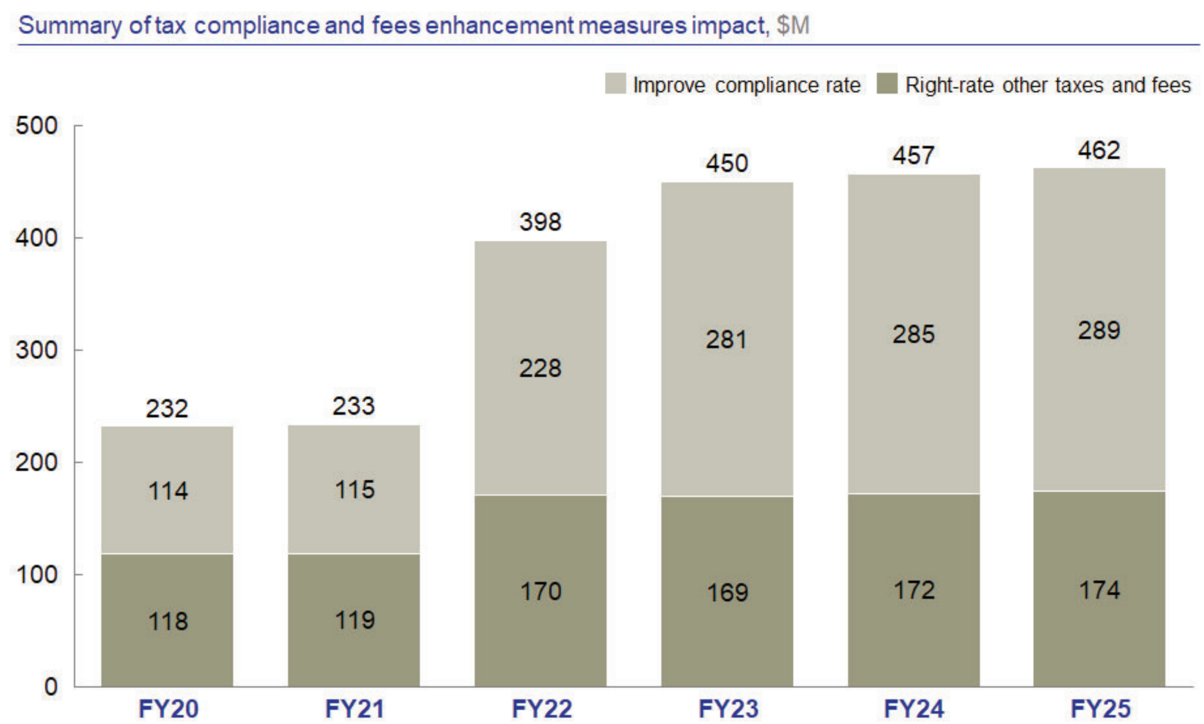
Government. Enhanced usage of data can help Hacienda better isolate risk and focus its compliance and enforcement resources. It is driving improvements in its culture and organization to boost enforcement capabilities, and digitizing the process of filing taxes, to lighten the burden of compliance on taxpayers.

With the publication of the first Tax Expenditure Report in September 2019 (see *Section 16.3.1*), policymakers now have the data necessary to review, assess, and adjust the use of individual tax expenditures to ensure that these foregone revenues are leading to positive economic development on the Island.

16.2 Administrative tax initiatives to increase revenue collections

By driving administrative tax reform, the Commonwealth must increase revenues over the amounts implied by baseline economic trends by $2.2 billion over FY2020-2025, as shown below (*Exhibit 111*). To capture impact, measures must be implemented in full by FY2023. The 2020 Fiscal Plan recognizes the substantial economic challenges ahead in FY2021 and therefore does not assume any incremental impact beyond what was already required in FY2020.

EXHIBIT 111: REVENUE MEASURES SUMMARY OF IMPACT



16.2.1 Improve compliance rate

The Government must continue its efforts to achieve a target 5% net uplift in annual revenues due to enhanced compliance by FY2023 across the major tax lines (personal income tax, corporate income tax, and SUT) – inclusive of implementation costs. Such an improvement would be in-line with improvements seen in other tax transformations. This improvement would be relative to a reduced baseline estimate of revenue collections due

to the impacts of COVID-19, and expanded impact would not be expected to resume until FY2022. [257]

Hacienda should continue to take a variety of initiatives that can boost voluntary compliance. The goal should be to reduce the cost of compliance while simultaneously raising the cost of non-compliance, through a combination of an increased likelihood of being caught while not paying taxes owed and more effective and enforceable penalties.[258]

- **Use new systems and processes to identify and remediate non-compliance.** Hacienda has taken steps to make it harder to abuse deductions and credits to avoid tax liability, for example by only allowing taxpayers to claim certain deductions and exemptions if their return is prepared by a certified public accountant following agreed upon procedures.

- **Reduce the complexity of the tax system and process of filing taxes** to make it easier for individuals and businesses to pay their taxes correctly. As detailed further in *Section 10.4*, improving the process of for filing and paying taxes is critical for improving ease of doing business, but it also helps boost voluntary compliance.

- **Improve use of data and analytics to address non-compliance**. Small and medium taxpayers account for a significant share of the unpaid and underpaid taxes, but only a tiny fraction of these taxpayers receive full-scale audits due to the significant time and cost investment needed. While a traditional IRS audit costs an average of $2,278 per case, automated notices or letters can be executed for $52 to $274 per case.[259] Hacienda is receiving increasing filings of information returns that can be used to better identify risk and focus compliance resources. Implementing data-driven, tiered compliance approaches over time will enable Puerto Rico to reach a significantly larger share of nonpayers.

- **Collecting SUT on Internet sales**. Nationally, the percentage of taxpayers voluntarily reporting and paying sales and use taxes on their income tax forms ranges from 0.2% to 10.2%, while nearly 80% of Americans shop online.[260,261] Mainland states have taken steps to improve sales tax collections on online sales through legislation, as well as voluntary agreements with major online retailers.[262] In its 2018 *Wayfair* decision, the US Supreme Court further provided mainland states with parameters under which sales taxes could be levied on out-of-state sellers. Given these trends, the Government should also be working to capture SUT on a much larger share of Internet sales. Hacienda has announced agreements with some online retailers to charge Puerto Rico SUT on Internet sales of goods.[263] With Internet sales growing at ~15% annually, and growth expected to accelerate further as the COVID-19 pandemic makes the internet a critical component of consumer purchasing habits, Internet sales tax presents an even more important opportunity going forward.

The impact from these compliance related activities is projected to phase in over the course of four years. In light of the challenging economic climate anticipated in FY2021, the 2020 Fiscal Plan does not forecast incremental increases in revenue yield until FY2022, though Hacienda will continue to implement its compliance-related initiatives.

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257 Analogous case studies include Panama, Jamaica, and Spain, which saw 1.0 to 2.5 percentage point increases in tax ratio relative to GDP through comprehensive tax overhauls, which included compliance initiatives

258 Xenia Velez presentation to the Oversight Board (Nov. 30, 2017), 3

259 IRS Enforcement Results, TIGTA Filing Season Audit, IRS Taxpayer Advocate, Team Analysis, GAO

260 "Use Tax Collection on Income Tax Returns in Other States" Research Department of Minnesota House of Representatives, April 2015. http://www.house.leg.state.mn.us/hrd/pubs/usetax.pdf

261 Tech Crunch, 2016

262 Voluntary agreements occur when corporations agree through individual negotiations with states to collect and remit sales tax directly to the state

263 Caribbean Business, “Amazon to charge Puerto Rico sales tax”

16.2.2 Right-rate other taxes and fees

Prior to Hurricane Maria, the Government reported that it had already developed a plan to right-rate certain taxes and fees. These original plans, as well as any adjustments mutually agreed upon between the Government and the Oversight Board during implementation of the March 2017 Fiscal Plan, have been largely included in this 2020 Fiscal Plan, except where explicitly noted below.

Despite multiple pieces of enabling legislation, the Government's approach to implementation lacks central accountability, with specific actions and timelines. Progress against these measures has been uneven and the Government must urgently make progress to close the gap.

Gaming tax. Legislation passed in 2017 increased licenses and fees on mechanical and electronic gaming machines to $3,000 from $100. This was originally estimated to generate ~$71 million in incremental revenues.[264] Part of this calculation involved assumptions of improved enforcement, as the Government has previously estimated that it is losing approximately $170 million per year due to illegal machines that are not paying licensing fees. However, when factoring in the potential that a 2,900% increase in taxes on the machines could decrease total revenues from gaming, the Fiscal Plans adjust the required revenues to be approximately $46 million.

Licenses and other fees. 2017 legislation enabled fee increases in miscellaneous categories. Hacienda will determine which exact fees are to be increased to meet these minimum thresholds, achieving an overall revenue increase of ~$57 million per year.[265] Categories are as follows: Charges for services; Fines; Insurance; Licenses; Permits; Rent; Royalties; Stamps; Other.

Tobacco taxes. Legislation was passed in 2017 to increase specific tobacco taxes, including taxes on cigarettes, cigars, rolling tobacco, cigarette paper and tubes, chewing tobacco, snuff, electronic cigarettes, nicotine cartridges, and vaporizers. Accounting for one-time declines in use due to price elasticities after the new law went into place, a ~$52 million per year increase by FY2024 in revenues due to the new taxes is required. In order to give the Government time to focus on a comprehensive implementation approach, the required revenues are delayed until FY2022.[266]

Medical marijuana tax. Legislation has been enacted to tax medical marijuana. Based on an estimated 29,000 patients, the Government expected to collect approximately ~$13 million per year in additional revenue through this initiative.[267]

Airbnb Tax. Legislation has been enacted to apply a 7% hotel room tax to Airbnb rentals, resulting in a projected annual revenue increase of ~$3.5 million This revenue stream will be substantially impacted by the reduction in demand due to COVID-19, recovering only as the tourism sector rebounds.

16.3 Implementation and enforcement of revenue measures

The following implementation plan details the continuation of the Commonwealth's efforts to increase compliance and imposes further details on key milestones in the process to right-rate taxes and fees. To date, Hacienda has made important progress towards deploying SURI, its integrated tax system. Phases 1 and 2 of SURI have been rolled out for SUT, excise taxes and

264 Based on an assumption of 23,000 gaming machines on which Hacienda is able to collect fees (http://www.oslpr.org/2017-2020/leyes/pdf/ley-108-23-Ago-2017.pdf)

265 Assumes an 80% capture rate on the $73M potential to account for potential elasticities in demand based on fee increases

266 Based on an 18% decline, per Hacienda (April 5, 2017 calculations)

267 $15M projected receipts, minus $1.5M of dedicated revenues for the medical marijuana council established in 2017-Act 42 and controlled substances monitoring in 2017-Act 70

license fees and will likely have a beneficial impact on FY2020 tax compliance. Phase III has been rolled out in February 2020 for Individual Income Tax and Corporate Income Tax, with likely impact starting in FY2021. The benefits of the SURI platform include improved filing and payment capabilities, digital workflows, and integration of previously-disparate data sources. These features are expected to, over time, improve Hacienda's ability to serve taxpayers and enhance its compliance capabilities. Hacienda has also begun to make use of new information reporting and withholding requirements to limit the structural opportunities for non-compliance (e.g., through the use of alternative minimum taxes and limitations of deductions where there is no corroborating information reporting). On right-rating of taxes and fees, the progress has been mixed, with certain smaller revenue streams such as collection of tax on Airbnb rentals meeting initial expectations, with others like increases in tobacco revenues and gaming fees under-performing relative to Fiscal Plan requirements. Hacienda must comprehensively assess progress against these categories of revenue enhancement and develop action plans to mitigate future under-performance.

16.3.1 Creation of a tax expenditure report and regular reporting

In order to provide a critical element of fiscal responsibility and transparency, the Government must regularly produce a tax expenditure report, which will include a comprehensive list of revenue losses attributable to provisions of the Puerto Rican tax code that deviate from the tax structures benchmark law. Having a clear and accurate understanding of what the Government spends through tax expenditures is critical to ensuring the expenditures are continuing to contribute to economic growth and opportunity.[268]

In response to the 2019 Fiscal Plan requirements, the Government published its inaugural Tax Expenditure Report in September 2019 for tax expenditures associated with tax year 2017. For the first time in Puerto Rico's history, taxpayers and the Government now have better visibility into the full scope of tax expenditures being offered, together with a description and approximate cost of each expenditure.

Additional revisions are required to tax expenditure reporting. For future iterations, the Tax Expenditure Report must include the cost of each tax expenditure for the current year and at least the prior two years. The report must also forecast the expected revenue collections and losses for at least the next five years from the date the report is produced. The forecast of revenue losses must include a comprehensive inventory of all tax credits, cash grants, deductions, exemptions, preferential tax rate, tax liability deferral and any other tax incentives where amounts allocated can materially impact the Commonwealth's financials.

16.3.2 Tax incentives code reform

The current tax incentives code structure has high fiscal costs – in excess of $400 million – but does not provide enough visibility to allow for clear tracking of these tax concessions and the returns they generate for Puerto Rico's economic growth. Past studies, based on limited available economic data, have indicated that while some tax incentives led to positive returns on investment, many others do not yield similar results.

That is what led the Commonwealth to enact Act 60-2019 (the "Puerto Rico Tax Incentives Code" or "Incentives Code"), which amended the tax incentives code and adopted a new legal and administrative framework to normalize the way in which new incentives are created, approved, processed, and monitored. Existing incentive laws were repealed and replaced by similar incentives in Act 60-2019.

To evaluate the fiscal benefit from each incentive, the legislation uses a Return on Investment ("ROI") approach combined with an assessment of fiscal multipliers to prioritize high value-

[268] Tax Policy Center, Urban Institute & Brookings Institution, "State Income Tax Expenditures"

added incentives relative to those that do not generate sufficient economic return. The legislation, however, does not include explicit caps on, reductions to, or the elimination of any specific incentives. Rather, the purpose of the Incentives Code is to measure the ROI of tax and economic incentives by grouping them under a transparent and uniform code.

Through the Incentives Code, the term, rate, and characteristics of incentives offered are harmonized across industries and credits. The Incentives Code also creates a centralized Incentives Office for Businesses in Puerto Rico at DDEC and establishes an Incentives Concession Portal to centralize, standardize, and streamline the processes related to the application and approval of decrees, cash grants, tax credits, subsidies, and other incentives.

Act 60-2019 also required the public disclosure of beneficiaries of certain tax expenditures. In accordance with that requirement, DDEC disclosed (on January 30, 2020) that 8,364 companies and individuals received certain tax incentives. The online database offers the name of the grantee, the type of benefit, and the decree's issue date. At the moment, DDEC released the relevant information for recipients that receive benefits from the following Acts: Act 14-2017 (Physician Retention); Act 20-2012 (Exportation of Services); Act 22-2012 (Investor Relocation); Act 273-2012 (International Financial Center Regulatory Act); and Act 27-2011 (Film Production). DDEC subsequently released additional data on February 11, 2020, disclosing recipients of the following tax expenditures: Act 73-2008 (Economic Incentives for the Development of Puerto Rico Act); and Act 83-2010 (Puerto Rico Green Energy Incentives Act).

Many provisions of Act 60-2019 require the drafting and approval of regulations prior to their implementation.[269]

The lack of transparency and high cost of these tax concessions warrant additional reform in the tax incentives code. In addition to public disclosure of the amount and type of tax incentives awarded as part of the tax expenditure report, a value-for-money assessment for these tax concessions needs to be conducted to increase the rate of return on investment to Puerto Rico. Subsequently, based on the findings of this formalized assessment and explicit annual budget, the Government should implement a reform on the existing tax incentives code, to better align the tax concessions awards to the growth strategy of Puerto Rico.

16.3.3 Principle of Revenue Neutrality

Puerto Rico needs to drive toward more formality and increased compliance within the tax base, but it cannot lose revenues in the process. Therefore, any tax reform or tax law initiatives that the Government undertakes or pursues during a year within the 2020 Fiscal Plan period must be revenue neutral, that is, all tax reductions must be accompanied by specific, offsetting revenue measures of the same amount that are identified in the enabling legislation. Each tax measure must also include confidence building elements, such as behavioral adjustments and reasonable capture rates. To ensure revenue neutrality, the implementation of any tax law initiatives must occur sequentially, with the Government ensuring that initiatives are paid for before rates are reduced. Enforcement mechanisms must also be part of any tax initiative package to prevent a scenario where tax reductions are not accompanied by sufficient offsetting revenue measures identified in the enabling legislation.

16.3.4 Required implementation actions

To achieve the 2020 Fiscal Plan revenue measures, certain action items must be implemented according to the schedule described in *Exhibit 112*.

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269 Pursuant to PROMESA section 204(b)(4) and the Oversight Board's policy with respect thereto, proposed rules, regulations, administrative orders and executive orders covered by said policy, including all regulations under Act 60-2019, must be submitted to the Oversight Board before being issued to ensure compliance with the certified Commonwealth Fiscal Plan.

EXHIBIT 112: REVENUE MEASURES SUMMARY OF IMPACT

Required implementation action	Deadline
▪ Finalize the integrated plan for the next phase of compliance improvement across the major tax types and assess the resources needed to support the activities identified	▪ December 2020
▪ Develop resource plan to implement next phase (personnel, IT, other support) as needed to drive progress against key initiatives	▪ March 2021
▪ Implement process to estimate the impact of compliance efforts on revenue collections to inform future program priorities	▪ June 2021

Chapter 17. Reduction in appropriations to UPR

17.1 Current state and vision

The central Government provides a range of appropriations to three main groups of recipients: The University of Puerto Rico (UPR), Puerto Rico's 78 municipalities, and "other" recipients (typically private industry or non-profit institutions).

The University of Puerto Rico, founded in 1903, is Puerto Rico's largest and main university system. Its mission is to serve the people of Puerto Rico, contribute to the development and enjoyment of the fundamental values of Puerto Rican culture, and uphold the ideals of a democratic society. To advance its mission, UPR strives to provide high-quality education and create new knowledge in the Arts, Sciences, and Technology. UPR has a history of academic excellence, with 694 degree-granting academic and professional certification programs, including six first level professional degree programs and 34 PhD programs. The university system is also an important center of research; for example, the Rio Piedras campus is classified as a high research activity university by the Carnegie Foundation (one of only 335 US universities to receive such a designation) and there are 79 separate research centers across the university system. UPR also plays a critical role in providing avenues for social and economic advancement, with 68% of students receiving Pell grants.[270]

In FY2018, UPR was 67% subsidized (~$678 million in annual appropriations) by state and local funds, compared to an average 25% state and local subsidization for US public universities.[271] In FY2018, UPR's undergraduate tuition was less than one-third of the US average for public universities, even after adjusting for per-capita income, and more than 40% below the average tuition of private universities on the Island.[272] Yet, during the past decade, UPR has seen a 24% enrollment decline (13% since FY2018) across both graduate and undergraduate populations. Moreover, UPR consists of 11 independent campuses with minimal shared services or administrative consolidation. As a result, UPR has grown reliant on the significant subsidies from the Commonwealth, and has made slow progress in addressing declining enrollment, diversifying its revenues, rationalizing its tuition and scholarship systems, renewing and maintaining its infrastructure, addressing operational

270 UPR 2012-2017 Strategic Plan

271 UPR, IPEDs 2016, College Board

272 Represents the average across the Ana G. Mendez University system, Inter-American University, Sacred Heart University, and Polytechnic University for SY18-19.

EXHIBIT 120: MAP OF MUNICIPALITIES PARTICIPATING IN THE OVERSIGHT BOARD'S PILOT PROGRAM

18.3.3 Property tax reform

CRIM plays an important role in supporting Puerto Rico's municipalities in their economic and social development by ensuring an efficient process to collect and distribute real and personal property tax revenues, which are an important revenue stream for municipalities. In FY2020, property taxes represented approximately 29% of the aggregate general fund budget for municipalities.

Historically, the taxable value of real and personal property has been significantly reduced by tax exemptions and exonerations. In FY2019 for example, more than 50% of the real and personal property tax base was eliminated through these exemptions and exonerations. In addition, there is a backlog of real properties not yet appraised, and collection rates for current year real property tax billings are well below comparable jurisdictions at approximately 68%. This has resulted in a large accounts receivable balance. Therefore, it is essential that CRIM seize all opportunities to maximize property tax collections to improve municipal revenues.

In partnership with the municipalities, CRIM must implement measures to capture unrealized property tax revenues by increasing tax compliance and improving overall collection rates. CRIM must also update the tax roll to include the tens of thousands of non-registered properties and home improvements. Additionally, CRIM must undergo an operational transformation centered around the replacement of outdated and inefficient applications and hardware and the establishment of a data-driven culture. Based on implementation planning discussions with CRIM management, CRIM estimates these initiatives could produce:

- $70 million of additional annual revenue from raising real property tax compliance from 68% to 76%;
- $118 million of additional annual revenue from registering properties and home improvements not on the tax roll;
- $400 million of one-time revenue from selling the accounts receivable portfolio; and

Additional revenue-enhancing measures are identified in CRIM's Fiscal Plan.

Chapter 23. Macroeconomic projections

23.1 Economic and demographic trends

EXHIBIT 133: MACROECONOMIC TRENDS

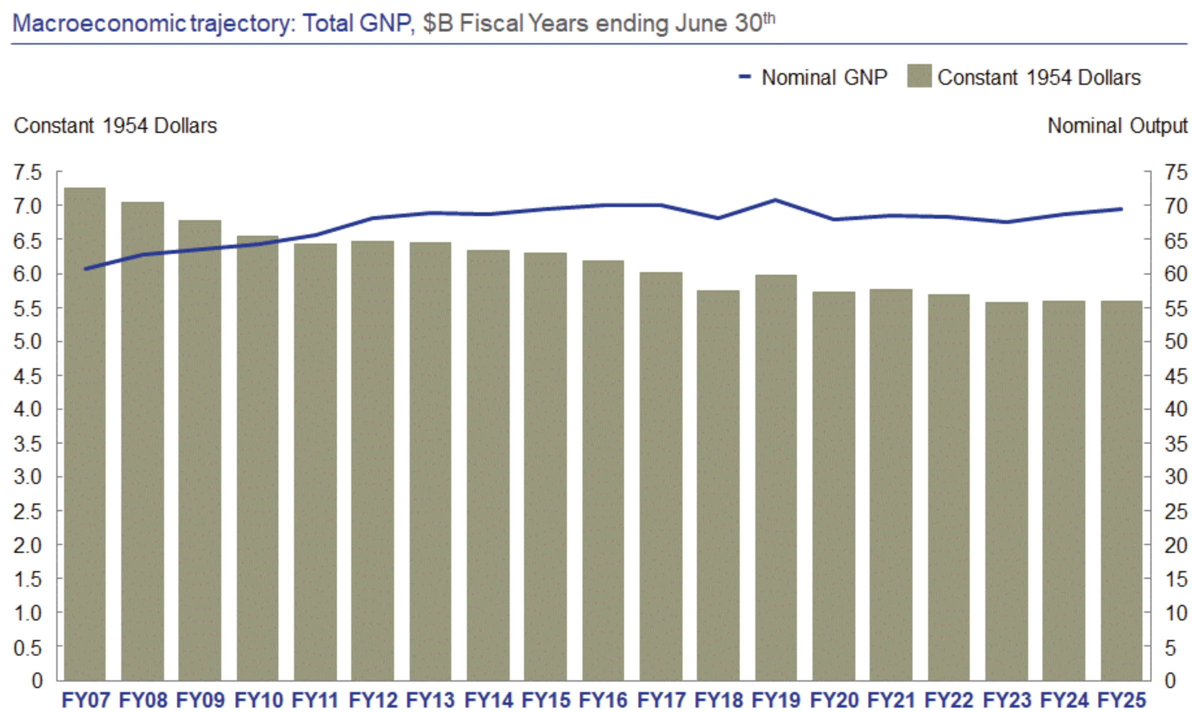


EXHIBIT 134: POPULATION TREND

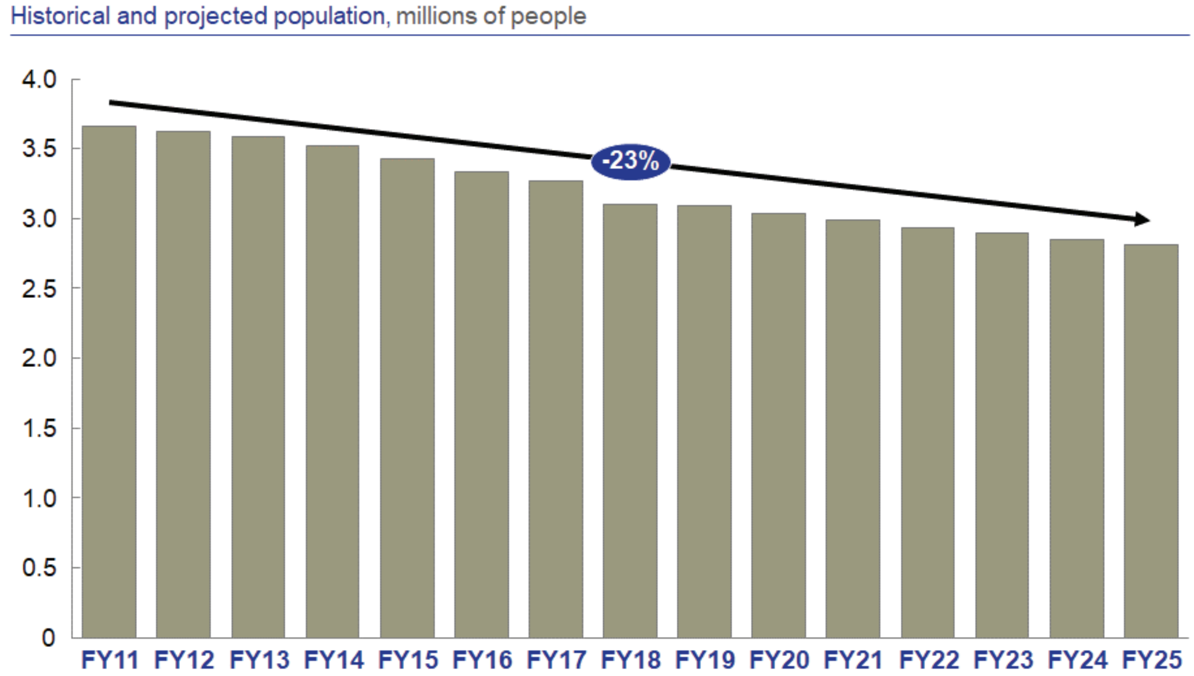
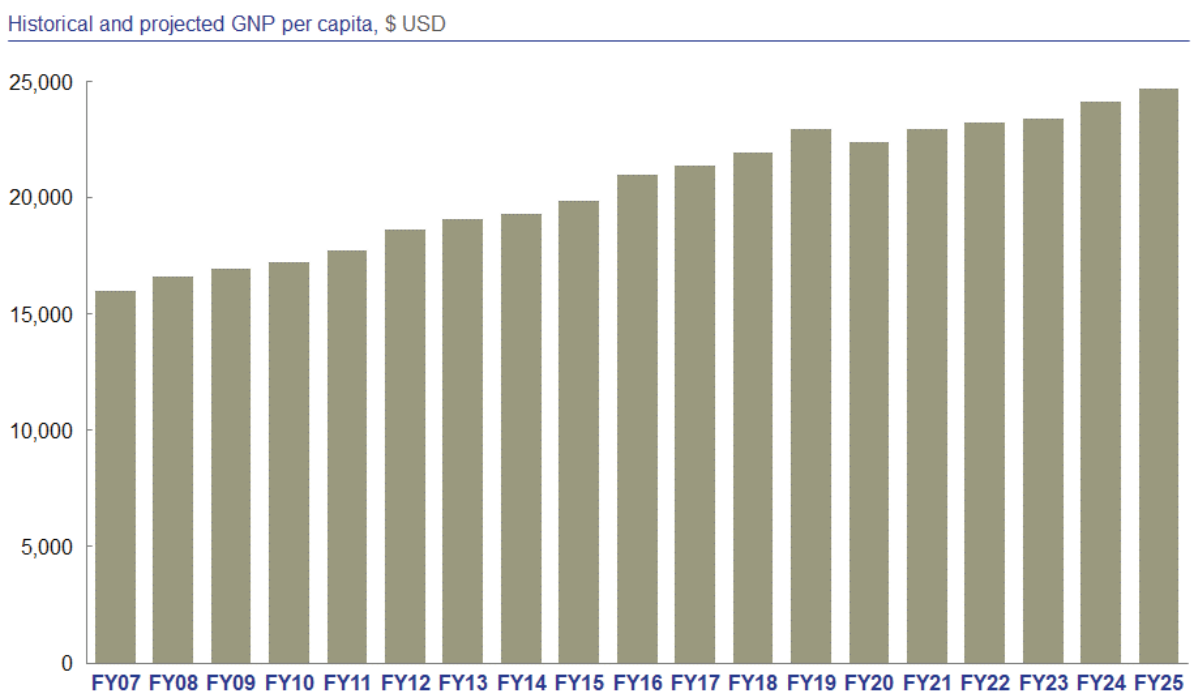


EXHIBIT 135: PER CAPITA GNP TREND



Chapter 24. Financial projections

24.1 Detailed financial projections

EXHIBIT 136: MACROECONOMIC OVERVIEW OF PUERTO RICO, FY2020-FY2025

Six-year financial projections post-measures and structural reforms, units as labeled, SR = structural reforms

Line item	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2020-25
Population, #	3,033	2,984	2,936	2,891	2,851	2,813	
Population growth rate, %	(1.8%)	(1.6%)	(1.6%)	(1.5%)	(1.4%)	(1.3%)	
Real GNP growth, %	**(4.0%)**	**0.5%**	**(1.5%)**	**(1.9%)**	**0.5%**	**(0.1%)**	
Nominal GNP, $M	**68,079**	**70,920**	**68,025**	**68,557**	**68,273**	**67,670**	
Nominal GNP per capita, $	22,428	22,975	23,252	23,404	24,133	24,720	
Nominal GNP per capita growth, %	(2.4%)	2.4%	1.2%	0.7%	3.1%	2.4%	
Inflation, %	**(0.1%)**	**0.3%**	**1.1%**	**1.0%**	**1.1%**	**1.2%**	
Disaster funding, $M	4,483	4,581	5,645	5,561	5,642	5,596	31,509
Revenues[1], $M	**21,571**	**21,133**	**20,174**	**19,324**	**19,552**	**19,724**	**121,477**
Commonwealth revenues	14,716	14,348	14,703	14,328	14,496	14,604	87,195
Federal transfers	6,855	6,785	5,471	4,995	5,056	5,120	34,282
Expenditures[1], $M	**(20,076)**	**(20,694)**	**(19,362)**	**(18,956)**	**(18,961)**	**(19,043)**	**(117,090)**
Commonwealth-funded expenditures	(13,368)	(14,047)	(14,022)	(14,085)	(14,023)	(14,035)	(83,581)
Federally funded expenditures	(6,708)	(6,646)	(5,339)	(4,871)	(4,938)	(5,007)	(33,509)
Gap/surplus, $M	**1,495**	**440**	**812**	**368**	**591**	**681**	**4,387**
Contractual debt service payments[2], $M	(1,798)	(1,742)	(1,767)	(1,782)	(1,692)	(1,697)	(10,477)
Net gap / surplus, $M	**(303)**	**(1,302)**	**(955)**	**(1,414)**	**(1,101)**	**(1,016)**	**(6,090)**
Surplus potentially not available[3], $M	*77*	*85*	*170*	*168*	*173*	*172*	*844*

1 Revenues and expenditures excluding gross up adjustments
2 Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only & does not represent anticipated future payments on restructured debt. Includes GO, PBA, CCDA, PRIFA, PFC, ERS, PRIDCO. The 2020 Fiscal Plan does not assume any predetermined outcome of ongoing litigation with respect to GO bonds
3 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action

EXHIBIT 137: REVENUE BREAKDOWN

Revenue detail post-measures and structural reforms

Fiscal Year Ending June 30, $M	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY20-25
General Fund Revenues:							
Individual Income Taxes	2,014	1,813	2,068	2,050	2,084	2,105	12,133
Corporate Income Taxes	2,247	1,744	1,765	1,751	1,780	1,796	11,083
Non-Resident Withholdings	474	570	583	535	537	539	3,238
Alcoholic Beverages	257	266	264	263	262	262	1,574
Cigarettes	98	96	95	94	93	93	568
Motor Vehicles	338	341	339	336	342	346	2,043
Excises on Off-Shore Shipment Rum	213	214	206	198	199	199	1,230
Other General Fund Revenue	340	342	341	338	343	347	2,051
Subtotal	**5,980**	**5,386**	**5,661**	**5,564**	**5,640**	**5,688**	**33,920**
SUT Collections (excl. 53.65% PSTBA, FAM & CINE)	1,776	1,917	1,892	1,850	1,869	1,874	11,177
Act 154 Collections	1,831	1,691	1,447	1,199	1,199	1,199	8,567
PREPA Loan Repayment	-	-	-	-	-	-	-
General Fund Revenue (pre-measures)	**9,587**	**8,994**	**9,001**	**8,613**	**8,709**	**8,761**	**53,664**
Revenue Measures	232	233	398	450	457	462	2,232
General Fund Revenue (post-measures)[1]	**9,819**	**9,227**	**9,399**	**9,063**	**9,166**	**9,224**	**55,896**
Component Unit Revenue	1,361	1,192	1,305	1,300	1,318	1,331	7,807
Additional SUT (53.65% PSTBA, FAM & CINE)	126	127	127	126	128	129	762
Third party ASES receipts (rebates and municipal contributions)	270	309	415	425	435	445	2,299
Other Tax Revenues	2,330	2,433	2,408	2,379	2,398	2,416	14,364
Other Non-Tax Revenues	-	-	-	-	-	-	-
SRF expense for Commonwealth Agencies	809	1,060	1,049	1,037	1,051	1,059	6,066
Adj. Revenue Post Measures (Excl. Federal Transfers)	**14,716**	**14,348**	**14,703**	**14,328**	**14,496**	**14,604**	**87,195**
Federal Transfers to Central Government	4,240	4,240	4,273	4,306	4,346	4,388	25,793
Federal Transfers - Medicaid	2,456	2,387	1,037	527	546	566	7,519
Federal Transfers to Independent Component Units	159	159	161	162	164	166	971
Revenues Post Measures	**21,571**	**21,133**	**20,174**	**19,324**	**19,552**	**19,724**	**121,477**
Adjustments for revenue gross up	727	716	705	699	704	708	4,260
Revenue Post measures and post revenue gross up	**22,298**	**21,850**	**20,879**	**20,023**	**20,256**	**20,432**	**125,737**

1 Includes ~$4M annual non-general fund revenue measures attributable to PRTC

EXHIBIT 138: SUMMARY OF BASELINE EXPENDITURES AND MEASURES

Expense detail post-measures and structural reforms

Fiscal Year Ending June 30, $M	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2020-25
Expenses							
General Fund Expenditures:							
Direct Payroll	(2,935)	(2,949)	(2,980)	(3,009)	(3,041)	(3,076)	(17,990)
Non-Personnel Operating Expenses	(1,697)	(1,711)	(1,723)	(1,745)	(1,773)	(1,794)	(10,443)
Municipal Expenses	(220)	(220)	(220)	(220)	(220)	(220)	(1,318)
Pension Expenses	(2,284)	(2,332)	(2,314)	(2,311)	(2,309)	(2,301)	(13,852)
Disaster Recovery Cost Match	(181)	(213)	(187)	(153)	(139)	(139)	(1,013)
Restructuring / Title III Costs	(217)	(162)	(109)	(89)	(42)	-	(619)
UPR Appropriation and Other GF Expenses	(1,099)	(1,224)	(1,162)	(1,121)	(1,055)	(1,056)	(6,716)
Total General Fund Expenses (excl. inter gov transfers)	**(8,632)**	**(8,811)**	**(8,695)**	**(8,648)**	**(8,580)**	**(8,585)**	**(51,951)**
Medicaid - commonwealth funded	(87)	(287)	(1,586)	(2,165)	(2,259)	(2,359)	(8,743)
Social Programs - commonwealth funded	(15)	(15)	(15)	(15)	(15)	(15)	(91)
Total General Fund Expenses (excl. inter gov transfers)	**(8,734)**	**(9,113)**	**(10,296)**	**(10,828)**	**(10,854)**	**(10,959)**	**(60,785)**
Federal Funds, SRF, and CU operating expenses:							
Direct Payroll	(1,329)	(1,321)	(1,335)	(1,347)	(1,362)	(1,378)	(8,072)
Non-Personnel Operating Expenses	(1,924)	(1,827)	(1,799)	(1,818)	(1,843)	(1,869)	(11,080)
SRF expenses for Commonwealth Agencies	(736)	(857)	(905)	(894)	(906)	(914)	(5,212)
Medicaid - federally funded	(2,456)	(2,387)	(1,037)	(527)	(546)	(566)	(7,519)
Medicaid - SRF	(270)	(309)	(415)	(425)	(435)	(445)	(2,299)
Social Programs - federally funded	(2,730)	(2,734)	(2,761)	(2,788)	(2,819)	(2,850)	(16,682)
Total CW Funded Op. Exp.	**(18,179)**	**(18,548)**	**(18,549)**	**(18,627)**	**(18,765)**	**(18,981)**	**(111,648)**
Expense Measures	(50)	(127)	1,132	1,594	1,748	1,905	6,202
Total CW Funded Op. Exp. Post Measures excl. Loss of Medicaid Funding	**(18,229)**	**(18,675)**	**(17,417)**	**(17,032)**	**(17,016)**	**(17,076)**	**(105,446)**
Adjustment for expenditure gross up	(727)	(716)	(705)	(699)	(704)	(708)	(4,260)
Net Operating Surplus/(Deficit)	**3,341**	**2,458**	**2,757**	**2,291**	**2,535**	**2,648**	**16,031**
Capex and Other Expenses:							
Maintenance Capex	(382)	(308)	(367)	(370)	(375)	(379)	(2,181)
Enterprise funds	(1,186)	(1,190)	(1,202)	(1,215)	(1,228)	(1,244)	(7,265)
Disbursements of Tax Revenues to Entities Outside Plan	(512)	(399)	(366)	(330)	(334)	(338)	(2,278)
Other Non-Recurring	234	(122)	(10)	(9)	(7)	(6)	80
Total Capex and Other Expenses	**(1,847)**	**(2,018)**	**(1,945)**	**(1,923)**	**(1,945)**	**(1,967)**	**(11,644)**
Surplus Post Measures (excl. Debt Payments)	**1,495**	**440**	**812**	**368**	**591**	**681**	**4,387**
Contractual Debt Service Payments[1]	(1,798)	(1,742)	(1,767)	(1,782)	(1,692)	(1,697)	(10,477)
Surplus after Measures and Debt Payments	**(303)**	**(1,302)**	**(955)**	**(1,414)**	**(1,101)**	**(1,016)**	**(6,090)**
Surplus potentially not available[2], $M	*77*	*85*	*170*	*168*	*173*	*172*	*844*

1 Debt service based on prepetition contractual debt obligations. Presented for illustrative purposes only and does not represent anticipated future payments on restructured debt.
2 These surplus amounts are generated by Commonwealth corporations and the Commonwealth's ability to access such surplus amounts could be at risk without further legislative action.

Chapter 25. Fiscal measures

25.1 Agency efficiencies

Exhibit 139 details the payroll and non-payroll savings for each of the agency groupings. Agency groupings are as shown below in *Exhibit 140*.

EXHIBIT 139: MEASURES SUMMARY IMPACT FOR ALL AGENCY GROUPINGS [291]

Run-rate savings from agency efficiency measures[1], $K

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Education	336,854	330,682	433,237	458,275	495,397	524,656
Courts and Legislature	84,540	75,614	90,906	97,225	98,325	99,514
Health	104,341	90,611	133,493	144,002	145,632	147,392
Public Safety	141,371	141,078	162,334	178,920	180,945	183,132
Corrections	96,348	54,837	101,627	105,942	107,141	108,436
OCFO - Treasury	26,966	81,606	92,916	95,608	96,690	97,859
Public Works	37,260	38,671	65,951	68,071	68,842	69,674
State Insurance Fund Corporation	61,700	59,433	78,511	81,291	82,212	83,206
Economic Development	26,770	58,347	55,459	56,638	57,279	57,972
Executive Office	16,973	9,790	19,602	21,440	21,683	21,945
Independent Agencies	25,085	6,348	26,136	27,706	28,019	28,358
Environmental	15,034	10,535	18,674	19,642	19,864	20,105
Families & Children	21,108	20,652	49,821	55,642	56,272	56,952
Housing	26,798	18,272	23,404	25,358	25,646	25,956
Automobile Accident Compensation Administration	16,051	13,188	19,246	19,978	20,204	20,448
Labor	13,473	11,871	18,221	19,309	19,527	19,763
FOMB	10,971	17,375	17,447	17,502	17,700	17,914
Agriculture	26,662	24,992	29,860	30,345	30,689	31,060
Justice	14,619	13,888	18,393	21,320	21,561	21,822
Culture	5,407	4,665	6,833	7,088	7,168	7,255
Closures	3,377	10,393	15,748	16,075	16,257	16,454
Finance Commission	3,513	2,963	4,197	4,349	4,398	4,452
Retirement Services	26,656	2,900	3,011	3,154	3,189	3,228
Land	2,894	1,740	4,021	4,158	4,205	4,256
State	11,203	2,025	3,345	3,441	3,480	3,522
Utilities Commission	3,239	1,531	3,115	3,281	3,318	3,358
Transparency & Control Entities	995	564	1,009	1,018	1,030	1,042
Ombudsman	1,692	1,565	2,338	2,462	2,490	2,520
Universities	1,651	1,355	1,955	2,121	2,146	2,171
Institute of Statistics	483	375	537	550	557	563
Custody Acct.	110,841	48,230	66,753	67,498	68,262	69,087
Public Service Commission	-	-	-	-	-	-
Total run-rate savings from agency efficiency measures	1,274,875	1,156,096	1,568,100	1,659,409	1,710,130	1,754,071

1 Excluding investments and other funding increases

291 Excluding investments and other funding increases.

United States Census Bureau

QuickFacts

Puerto Rico

QuickFacts provides statistics for all states and counties, and for cities and towns with a ***population of 5,000 or more***.

Table

All Topics	Puerto Rico
Population, Census, April 1, 2020	**3,285,874**
PEOPLE	
Population	
Population estimates, July 1, 2019, (V2019)	3,193,694
Population estimates base, April 1, 2010, (V2019)	3,726,157
Population, percent change - April 1, 2010 (estimates base) to July 1, 2019, (V2019)	-14.3%
Population, Census, April 1, 2020	**3,285,874**
Population, Census, April 1, 2010	3,725,789
Age and Sex	
Persons under 5 years, percent	3.7%
Persons under 18 years, percent	17.9%
Persons 65 years and over, percent	21.3%
Female persons, percent	52.5%
Race and Hispanic Origin	
White alone, percent	65.9%
Black or African American alone, percent (a)	11.7%
American Indian and Alaska Native alone, percent (a)	0.2%
Asian alone, percent (a)	0.2%
Native Hawaiian and Other Pacific Islander alone, percent (a)	0.0%
Two or More Races, percent	5.3%
Hispanic or Latino, percent (b)	98.7%
White alone, not Hispanic or Latino, percent	1.0%
Population Characteristics	
Veterans, 2015-2019	76,216
Foreign born persons, percent, 2015-2019	2.7%
Housing	
Housing units, July 1, 2019, (V2019)	X
Owner-occupied housing unit rate, 2015-2019	68.1%
Median value of owner-occupied housing units, 2015-2019	$111,500
Median selected monthly owner costs -with a mortgage, 2015-2019	$880
Median selected monthly owner costs -without a mortgage, 2015-2019	$149
Median gross rent, 2015-2019	$478
Building permits, 2020	X
Families & Living Arrangements	
Households, 2015-2019	1,192,654
Persons per household, 2015-2019	2.75
Living in same house 1 year ago, percent of persons age 1 year+, 2015-2019	92.9%
Language other than English spoken at home, percent of persons age 5 years+, 2015-2019	94.5%
Computer and Internet Use	
Households with a computer, percent, 2015-2019	68.6%
Households with a broadband Internet subscription, percent, 2015-2019	60.4%
Education	
High school graduate or higher, percent of persons age 25 years+, 2015-2019	76.5%
Bachelor's degree or higher, percent of persons age 25 years+, 2015-2019	25.9%
Health	
With a disability, under age 65 years, percent, 2015-2019	14.9%
Persons without health insurance, under age 65 years, percent	9.6%
Economy	
In civilian labor force, total, percent of population age 16 years+, 2015-2019	44.4%
In civilian labor force, female, percent of population age 16 years+, 2015-2019	39.7%
Total accommodation and food services sales, 2012 ($1,000) (c)	4,256,139
	6,098,340

Exhibit C

Total health care and social assistance receipts/revenue, 2012 ($1,000) (c)	
Total manufacturers shipments, 2012 ($1,000) (c)	76,575,043
Total retail sales, 2012 ($1,000) (c)	24,957,584
Total retail sales per capita, 2012 (c)	$6,806
Transportation	
Mean travel time to work (minutes), workers age 16 years+, 2015-2019	29.3
Income & Poverty	
Median household income (in 2019 dollars), 2015-2019	$20,539
Per capita income in past 12 months (in 2019 dollars), 2015-2019	$12,914
Persons in poverty, percent	43.5%

BUSINESSES

Businesses	
Total employer establishments, 2019	44,748
Total employment, 2019	680,204
Total annual payroll, 2019 ($1,000)	18,589,440
Total employment, percent change, 2018-2019	2.9%
Total nonemployer establishments, 2018	X
All firms, 2012	X
Men-owned firms, 2012	X
Women-owned firms, 2012	X
Minority-owned firms, 2012	X
Nonminority-owned firms, 2012	X
Veteran-owned firms, 2012	X
Nonveteran-owned firms, 2012	X

GEOGRAPHY

Geography	
Population per square mile, 2010	1,088.2
Land area in square miles, 2010	3,423.80
FIPS Code	72

About datasets used in this table

Value Notes

Estimates are not comparable to other geographic levels due to methodology differences that may exist between different data sources.

Some estimates presented here come from sample data, and thus have sampling errors that may render some apparent differences between geographies statistically indistinguishable. Click the Quick Info icon to th row in TABLE view to learn about sampling error.

The vintage year (e.g., V2019) refers to the final year of the series (2010 thru 2019). *Different vintage years of estimates are not comparable.*

Fact Notes

(a) Includes persons reporting only one race
(c) Economic Census - Puerto Rico data are not comparable to U.S. Economic Census data
(b) Hispanics may be of any race, so also are included in applicable race categories

Value Flags

- Either no or too few sample observations were available to compute an estimate, or a ratio of medians cannot be calculated because one or both of the median estimates falls in the lowest or upper in open ended distribution.
F Fewer than 25 firms
D Suppressed to avoid disclosure of confidential information
N Data for this geographic area cannot be displayed because the number of sample cases is too small.
FN Footnote on this item in place of data
X Not applicable
S Suppressed; does not meet publication standards
NA Not available
Z Value greater than zero but less than half unit of measure shown

QuickFacts data are derived from: Population Estimates, American Community Survey, Census of Population and Housing, Current Population Survey, Small Area Health Insurance Estimates, Small Area Income and P Estimates, State and County Housing Unit Estimates, County Business Patterns, Nonemployer Statistics, Economic Census, Survey of Business Owners, Building Permits.

Exhibit C

Requirement 1 (A)

FAFAA Puerto Rico Fiscal Agency and Financial Advisory Authority

Puerto Rico Department of Treasury

Treasury Single Account ("TSA") FY 2021 Cash Flow

For the month of June FY21 and Q4 FY21

Glossary

Term		Definition
ACAA	-	Automobile Accident Compensation Administration, or Administración de Compensaciones por Accidentes de Automoviles, is a component unit of the Commonwealth of Puerto Rico.
Act 154	-	Act 154 means Act No. 154-2010, which, inter alia, imposes a temporary excise tax on the acquisition by multinationals of certain property manufactured or produced in whole or in part in Puerto Rico and on the acquisition of certain manufacturing services carried out in Puerto Rico. The Act 154 temporary excise tax expires on December 31, 2027.
AFI / PRIFA	-	Infrastructure Financing Authority.
ASC	-	Compulsory Liability Insurance, private insurance company.
ASES		Puerto Rico Health Insurance Administration, a public corporation and component unit of the Commonwealth of Puerto Rico.
CINE	-	Puerto Rico Cinema Fund, a recipient of certain assigned sales and use tax revenues.
COFINA	-	Puerto Rico Sales Tax Financing Corporation.
Deferred General Fund Receipt	-	Revenues pertaining to Fiscal Year 2020, such as individual and corporate income taxes, that are collected in Fiscal Year 2021 due to various executive orders and tax extensions in response to the COVID-19 pandemic.
DTPR	-	Department of the Treasury of Puerto Rico.
DTPR Collection System	-	This is the software system that DTPR uses for collections.
FAM	-	Municipal Fund Administration, a recipient of certain assigned sales and use tax revenues.
General Fund Collections	-	All gross tax collections received and deposited into the TSA from all Hacienda Collection Posts, through the Hacienda Colecturia Virtual (online), and/or SURI, as well as certain pass-through collections and others.
General Fund	-	General Fund (Operating Fund) means the Commonwealth principal operating fund; disbursements from such fund are generally approved through the Commonwealth's annual budgeting process.
Gross Payroll	-	Gross Payroll is equal to the sum of: (i) Net Payroll from the DTPR RHUM system; (ii) Other Payroll and (iii) Cash outlays for wage garnishments by Agency.
HTA	-	Puerto Rico Highways and Transportation Authority, a public corporation and a component unit of the Commonwealth of Puerto Rico.
Liquidity Plan (LP)	-	The Liquidity Plan is the translation of the Certified Fiscal Plan ("CFP") and Certified Budget ("Budget") into a cash flow projection. The TSA Liquidity Plan encompasses all cash flow activity within the TSA. Certain cash flow activity is contemplated in the CFP and Budget, but occurs outside the TSA. Cash flow bridges from the TSA to the CFP and Budget have been included to facilitate comparison.
NAP	-	NAP, or the Nutrition Assistance Program, also known as PAN, or Programa de Asistencia Nutricional is a federal assistance nutritional program provided by the United States Department of Agriculture (USDA) solely to Puerto Rico.
Other Payroll	-	Other Payroll expenses relate to employee withholdings, social security, insurance, and other deductions.
Other State Collections	-	Inflows related to various Health Department programs, the State Insurance Fund, the Commissioner of Financial Institutions, interest earned on TSA bank accounts and others.
PayGo	-	PayGo - Puerto Rico pension system that is funded through a pay-as-you-go system. Retirement benefits expenses of government employers are paid by the central government and reimbursed by the employers, with such funds received by the TSA.
PRASA	-	Puerto Rico Aqueduct and Sewer Authority, a public corporation and a component unit of the Commonwealth of Puerto Rico.
PREPA	-	Puerto Rico Electric Power Authority, a public corporation and a component unit of the Commonwealth of Puerto Rico.
PRITA	-	Puerto Rico Integrated Transport Authority, a public corporation and component unit of the Commonwealth of Puerto Rico.
PSTBA	-	The PSTBA is an amount established under Act 91-2006, as amended, and the Sales Tax Revenue Bond Resolution, as amended and restated on June 10, 2009 (the "Bond Resolution"), that currently must be received by COFINA from 5.5% of the SUT before the Commonwealth can receive any of the other 5.5% SUT.
Public Corporation	-	Public corporations are governmental authorities with autonomous structure separate from the central government administration and with independent treasury functions.
RHUM System	-	This is the software system that DTPR uses for payroll.
SIFC	-	State Insurance Fund Corporation, a public corporation and a component unit of the Commonwealth of Puerto Rico.
Special Revenue Receipts	-	Collections made by central government agencies at collection posts for services rendered by the agencies as well as fees, licenses, permits, fines and others.
SURI	-	Sistema Unificada de Rentas Internas is the new digital tool of the Department of the Treasury that will allow integration and streamlining of the administration of taxes and revenues and eliminate the complexity of the current systems for the benefit of the Treasury and the taxpayers.
Sweep Account Transfers	-	Transfers of Fiscal Year 2020 collections in the SURI sweep account to the TSA during Fiscal Year 2021. The closing balance of the sweep account on June 30, 2020, was $1,024 million.
TSA	-	Treasury Single Account, the Commonwealth's main operational bank account (concentration account) in which a majority of receipts from Governmental funds are deposited and from which most expenses are disbursed. TSA receipts include tax collections, charges for services, intergovernmental collections, the proceeds of short and long-term debt issuances and amounts held in custody by the Secretary of the Treasury for the benefit of the Commonwealth's fiduciary funds. Only a portion of the revenues received by the TSA is included in the annual General Fund budget presented to the Puerto Rico Legislative Assembly for approval. Other revenues are separately assigned by law to certain agencies or public corporations but still flow through the TSA.

Introduction

- Enclosed is the weekly Treasury Single Account ("TSA") cash flow report and supporting schedules with monthly YTD FY2021 actual results compared to the FY2021 Liquidity Plan and FY2020 actual results.

- TSA is the Commonwealth's main operational bank account (concentration account) in which a majority of receipts from Governmental funds are deposited and from which most expenses are disbursed.

- Receipts in the TSA include tax collections (including revenues assigned to certain public corporations and pledged for the payment of their debt service), charges for services, intergovernmental collections (such as reimbursements from Federal assistance grants), the proceeds of short and long-term debt issuances held in custody by the Secretary of Treasury for the benefit of the Government fiduciary funds, and other receipts. Only a portion of the revenues received by the TSA is included in the annual General Fund budget presented to the Puerto Rico Legislative Assembly for approval. Other revenues are separately assigned by law to certain agencies or public corporations but still flow through the TSA.

- Disbursements from the TSA include payroll and related costs, vendor and operational disbursements (including those reimbursed by Federal assistance grants and funded from Special Revenue Funds), welfare expenditures, capital outlays, debt service payments, required budgetary formulas and appropriation payments, pass-through payments of pledged revenues to certain public corporations, tax refunds, payments of current pension benefits and other disbursements.

- Federal funds related to disaster relief for hurricanes Irma and Maria are deposited in a separate bank account overseen by the Government Authorized Representative ("GAR"). Funds may be transferred to the TSA either: (i) after admissible disbursements (per approved Project Worksheets) have been made or (ii) once supporting documentation for an accrual or related expense are provided to and approved by FEMA. Therefore, FEMA funding may also be received in advance of actual cash disbursement, as payments to vendors may occur subsequent to when the corresponding services are rendered / expenses are recorded.

- Federal funds related to the Coronavirus Aid, Relief, and Economic Security ("CARES") Act have been deposited into bank accounts overseen by Hacienda, but separate from the TSA.

- Sistema Unificada de Rentas Internas ("SURI") is the new digital platform designed to integrate and streamline the administration of taxes and revenues. Collections are initially deposited into a SURI sweep account outside of the TSA. Collections must be verified and reconciled before they can be swept into the TSA. The reconciliation process is still being refined, and as a result, there have been significant delays in transferring collections from the sweep account to the TSA. The SURI sweep account balance is reported on page 5 of this report.

- Data limitations and commentary:

  The government has focused on cash transaction information for which access to reliable, timely, and detailed data is readily available. The government continues to work with DTPR and other parties to access additional reliable data that would help to provide additional detail in the future.

Puerto Rico Department of Treasury | AAFAF

Executive Summary - TSA Cash Flow Actual Results

(figures in Millions)

$11,671	$34	$248	$1,671	$1,108	$3,970	$2,162
Bank Cash Position	June Cash Flow	Monthly Variance	Q4 Cash Flow	Q4 Variance	YTD Net Cash Flow	YTD Net Cash Flow Variance

Bridge from Liquidity Plan projected cash balance and actual ending cash balance as of June 30, 2021

Cash Flow line item	Variance Bridge ($M)
Liquidity Plan Projected Cash Balance 6/30/21:	$ 9,509
1 State Collections	2,099
2 Custody Account Transfers	244
3 Tax Refunds & Other Tax Credits	178
4 General Fund Operating Disbursements	174
5 State Cost Share	173
6 PREPA LUMA Payment	(750)
All Other	44
Actual TSA Cash Balance	**$ 11,671**

Comments

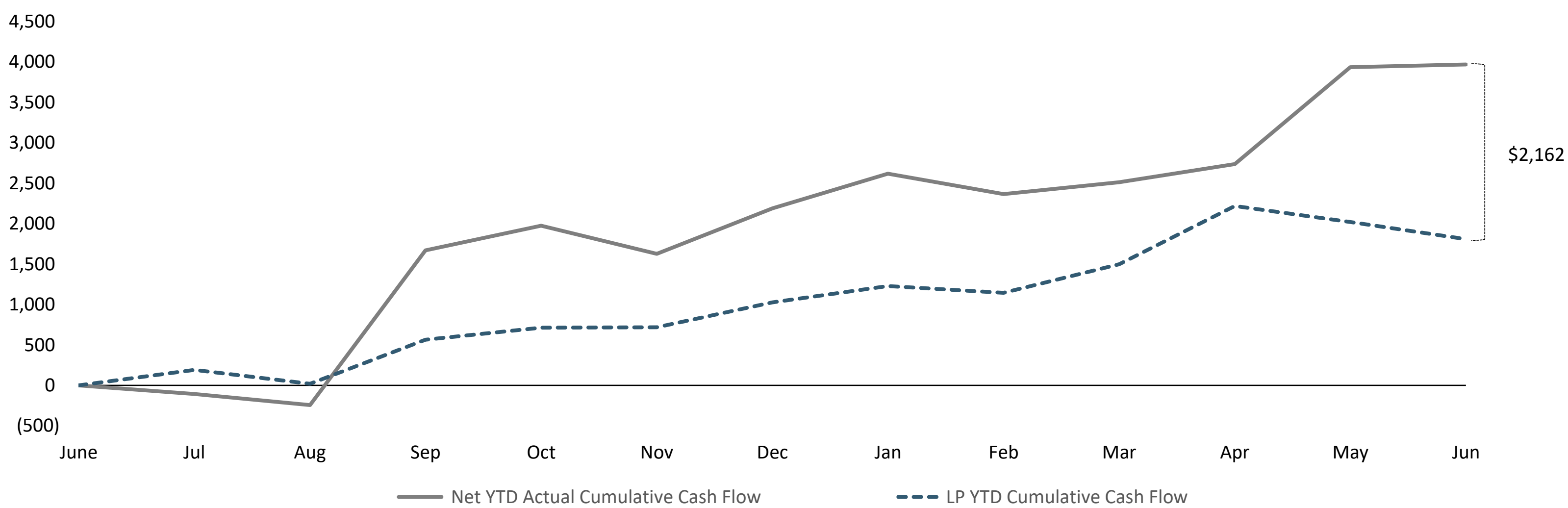
1. State collections ended the year $2,099 million ahead of plan and the TSA sweep account includes and additional $158 million of primarily general fund collections which will be transferred in short order. Outperformance is primarily due to the impact of increased Federal stimulus and better than expected economic activity during the Covid-19 pandemic.
2. Various custody account transfer items account for +$244M of variance. The plan included $54M as part of the overall $400M Broadband Expansion plan which has been delayed into FY22. The $50M for the 21st Century Technical & Business Education Fund has also not yet been transferred from the TSA. $56M is temporary variance related to municipalities, including $50M in transfers for the Municipal Development Funds in addition to $6M in transfers for the Municipal Improvement Funds which may be transferred in the first 60 days of the next fiscal year. The custody account transfers budget included $23M for litigation related to DOE transitory employee backpay, which was paid out and reported within gross payroll.
3. Tax refunds were $178M lower than forecast. Positive variance is due to various EITC benefits realized in the form of credit against tax liabilities owed by EITC benficiaries instead of cash distributions as contemplated with the Liquidity Plan and timing differences arising from the extension of tax filing deadlines due to the COVID-19 pandemic.
4. Approximately $174M of positive variance is attributable to General Fund Opex. These funds may be spent during the first 60 days of FY2022.
5. Approximately $173M of positive variance is attributable to budgeted State Cost Share. Cost share payments will occur in conjunction with increased recovery spending in FY22.
6. On June 1, 2021, $750 million was transferred to PREPA for funding of the working capital accounts required under the LUMA O&M agreement. This was not contemplated in the 2021 Fiscal Plan, and therefore excluded from the Liquidity Plan, resulting in a permanent negative variance to the forecast. Subsequent to the certification of the Fiscal Plan and Budget, Joint Resolution 139 was passed which provided for the $750 million disbursement.

Puerto Rico Department of Treasury | AAFAF

YTD TSA Cash Flow Summary - Actual vs LP

TSA Cumulative YTD Net Cash Flow ($M)

LP Bank Cash Balance:	$9,509
Actual TSA Bank Cash Balance:	$11,671



YTD Actuals vs. Liquidity Plan

YTD net cash flow was $3,970M and cash flow variance to the Liquidity Plan ended the year +$2,162M. The primary driver of FY21 variance was outperformance of state collections (+$2,099M vs forecast).

Puerto Rico Department of Treasury | AAFAF

YTD Cash Flow Summary - TSA Cash Flow Actual Results

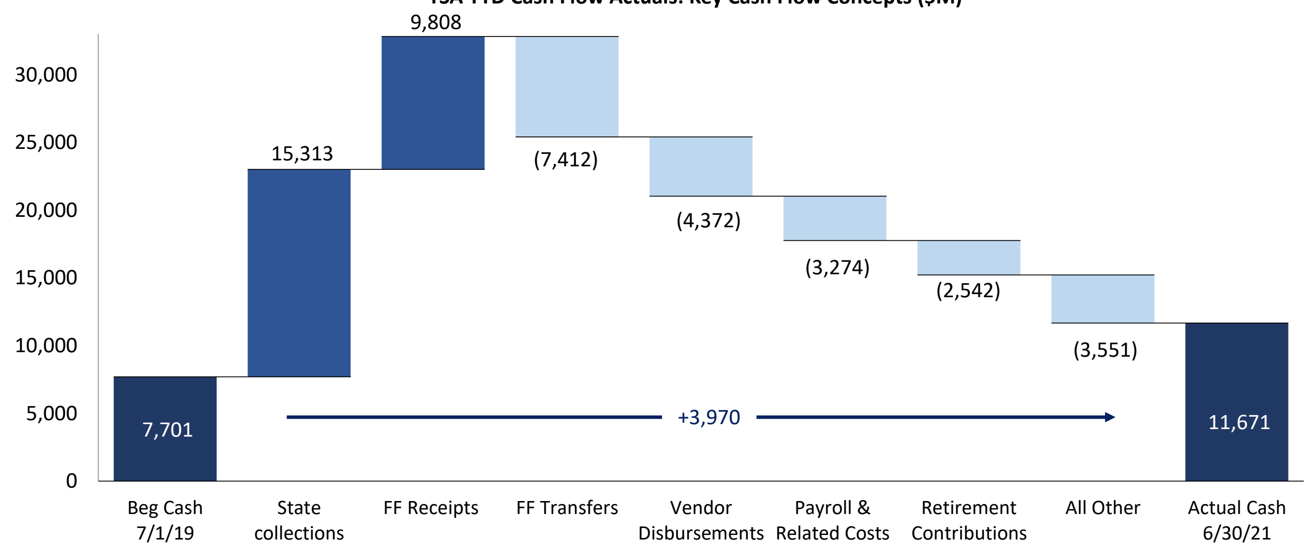
Net Cash Flow - YTD Actuals

1.) State Collections represents the largest gross cash inflow source to the TSA. The primary driver of cash increase to $11,671 million by the end of FY21 was surplus generated by General Fund cash receipts in excess of General Fund cash disbursements into and out of the TSA. Total General Fund cash surplus generated for the year is preliminarily $3,731M and can can be attributed to the $1,024M sweep transfer of FY20 revenues, strong FY21 General Fund collections, as well as spending within budget. However, some of this surplus may unwind as various expenditures related to FY21 are made in the first 60 days of FY22 and other unspent funds are reapportioned for alternative or future use. The second largest source of gross cash inflows were Federal Funds, representing 38% of FY21 inflows. However, these gross inflows are largely offset by Federal Fund disbursements, with a FY21 net deficit of $5M (Refer to page 14 for additional detail).

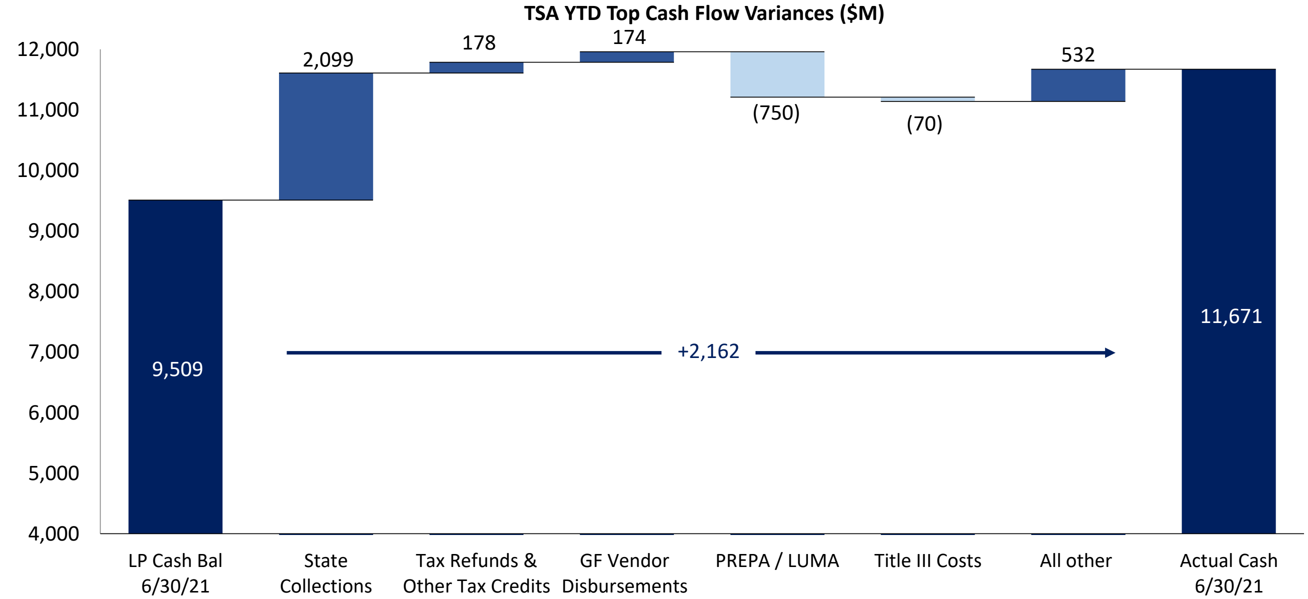
Net Cash Flow YTD Variance - LP vs. Actual

1.) State collections performing ahead of forecast are the primary driver of FY21 variance. Positive variance can be attributed to revenue outperformance across various revenue concepts. Refer to page 11 of this report for additional detail.

TSA YTD Cash Flow Actuals: Key Cash Flow Concepts ($M)



TSA YTD Top Cash Flow Variances ($M)



Puerto Rico Department of Treasury | AAFAF
TSA Cash Flow Actual Results as of June 30, 2021

	(figures in Millions)	FY21 Actual June	FY21 LP June	Variance June	FY21 Actual YTD	FY21 LP YTD	FY20 Actual YTD (a)	Variance YTD FY21 vs LP
	State Collections							
1	General fund collections (b)	$1,477	$987	$490	$12,474	$10,493	$8,895	$1,981
2	Deferred GF Receipts (COVID-19 Exec Action)	–	–	–	479	667	–	(188)
3	Other fund revenues & Pass-throughs (c)	39	22	17	272	208	1,020	65
4	Special Revenue receipts	39	37	2	430	434	383	(4)
5	All Other state collections (d)	58	35	23	634	388	333	245
6	Sweep Account Transfers	–	–	–	1,024	1,024	–	–
7	Subtotal - State collections (e)	$1,614	$1,081	$533	$15,313	$13,214	$10,630	$2,099
	Federal Fund Receipts							
8	Medicaid	255	237	18	2,881	3,255	2,279	(374)
9	Nutrition Assistance Program	402	203	199	3,167	1,998	2,663	1,169
10	All Other Federal Programs	199	288	(89)	2,077	2,951	1,855	(874)
11	Other	407	–	407	1,684	166	340	1,517
12	Subtotal - Federal Fund receipts	$1,264	$728	$536	$9,808	$8,370	$7,136	$1,438
	Balance Sheet Related							
13	Paygo charge	42	45	(3)	538	539	508	(1)
14	Other	–	–	–	–	–	–	–
15	Subtotal - Other Inflows	$42	$45	($3)	$538	$539	$508	($1)
16	**Total Inflows**	**$2,920**	**$1,854**	**$1,066**	**$25,659**	**$22,122**	**$18,274**	**$3,536**
	Payroll and Related Costs (f)							
17	General fund (i)	(227)	(230)	3	(2,651)	(2,757)	(2,739)	105
18	Federal fund	(38)	(52)	13	(466)	(608)	(523)	142
19	Other State fund	(14)	(11)	(3)	(157)	(132)	(138)	(25)
20	Subtotal - Payroll and Related Costs	($280)	($293)	$13	($3,274)	($3,496)	($3,400)	$222
	Operating Disbursements (g)							
21	General fund (i)	(159)	(167)	8	(1,736)	(1,909)	(1,294)	174
22	Federal fund	(137)	(237)	100	(1,935)	(2,344)	(1,491)	408
23	Other State fund	(69)	(60)	(9)	(702)	(660)	(653)	(41)
24	Subtotal - Vendor Disbursements	($365)	($464)	$99	($4,372)	($4,913)	($3,438)	$541
	State-funded Budgetary Transfers							
25	General Fund (i)	(154)	(163)	9	(1,973)	(1,979)	(1,886)	6
26	Other State Fund	(36)	(23)	(13)	(266)	(246)	(318)	(20)
27	Subtotal - Appropriations - All Funds	($190)	($186)	($4)	($2,240)	($2,226)	($2,204)	($14)
	Federal Fund Transfers							
28	Medicaid	(257)	(237)	(20)	(2,881)	(3,305)	(2,467)	424
29	Nutrition Assistance Program	(390)	(203)	(187)	(3,105)	(1,998)	(2,613)	(1,106)
30	All other federal fund transfers (h)	(352)	–	(352)	(1,427)	(124)	–	(1,303)
31	Subtotal - Federal Fund Transfers	($998)	($440)	($558)	($7,412)	($5,428)	($5,080)	($1,985)
	Other Disbursements - All Funds							
32	Retirement Contributions	(209)	(217)	8	(2,542)	(2,610)	(2,485)	68
33	Tax Refunds & other tax credits (i) (j)	(75)	(113)	37	(773)	(951)	(873)	178
34	Title III Costs	(24)	(6)	(18)	(158)	(88)	(133)	(70)
35	State Cost Share	–	(213)	213	(40)	(213)	(41)	173
36	Milestone Transfers	–	(29)	29	(2)	(90)	–	88
37	Custody Account Transfers	–	(108)	108	(56)	(300)	–	244
38	Cash Reserve	–	–	–	–	–	–	–
39	All Other	(744)	–	(744)	(820)	–	(145)	(820)
40	Subtotal - Other Disbursements - All Funds	($1,052)	($686)	($367)	($4,391)	($4,251)	($3,677)	($140)
41	**Total Outflows**	**($2,885)**	**($2,068)**	**($818)**	**($21,689)**	**($20,315)**	**($17,799)**	**($1,375)**
42	**Net Operating Cash Flow**	**$34**	**($214)**	**$248**	**$3,970**	**$1,808**	**$476**	**$2,162**
43	Bank Cash Position, Beginning (k)	11,636	9,723	1,914	7,701	7,701	7,225	–
44	**Bank Cash Position, Ending (k)**	**$11,671**	**$9,509**	**$2,162**	**$11,671**	**$9,509**	**$7,701**	**$2,162**

Note: *Refer to page 10 for footnote reference descriptions.*

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TSA Cash Flow Actual Results as of June 30, 2021

	(figures in Millions)	FY21 Actual Q1	FY21 Actual Q2	FY21 Actual Q3	FY21 Actual Q4	FY21 Actual YTD	FY21 LP Q1	FY21 LP Q2	FY21 LP Q3	FY21 LP Q4	FY21 LP YTD	Variance Q1	Variance Q2	Variance Q3	Variance Q4	Variance YTD FY21 vs LP
	State Collections															
1	General fund collections (b)	$2,547	$2,719	$2,773	$4,435	$12,474	$1,952	$2,363	$2,711	$3,466	$10,493	$595	$356	$62	$969	$1,981
2	Deferred GF Receipts (COVID-19 Exec Action)	448	31	–	–	479	600	67	–	–	667	(152)	(36)	–	–	(188)
3	Other fund revenues & Pass-throughs (c)	47	65	67	93	272	45	52	52	59	208	2	13	15	33	65
4	Special Revenue receipts	109	110	96	115	430	102	119	99	115	434	7	(8)	(3)	0	(4)
5	All Other state collections (d)	84	196	194	160	634	83	91	116	98	388	1	105	78	62	245
6	Sweep Account Transfers	1,024	–	–	–	1,024	512	384	128	–	1,024	512	(384)	(128)	–	–
7	Subtotal - State collections (e)	$4,259	$3,122	$3,130	$4,801	$15,313	$3,295	$3,075	$3,106	$3,737	$13,214	$965	$46	$24	$1,064	$2,099
	Federal Fund Receipts															
8	Medicaid	1,054	443	771	612	2,881	1,120	711	711	711	3,255	(66)	(268)	60	(99)	(374)
9	Nutrition Assistance Program	703	568	728	1,168	3,167	501	463	486	548	1,998	202	105	242	619	1,169
10	All Other Federal Programs	357	435	492	793	2,077	625	840	732	754	2,951	(268)	(405)	(240)	39	(874)
11	Other	227	435	493	529	1,684	104	62	–	–	166	123	373	493	529	1,517
12	Subtotal - Federal Fund receipts	$2,341	$1,881	$2,484	$3,102	$9,808	$2,350	$2,077	$1,929	$2,014	$8,370	($10)	($195)	$555	$1,088	$1,438
	Balance Sheet Related															
13	Paygo charge	162	144	118	114	538	135	135	135	135	539	27	9	(16)	(21)	(1)
14	Other	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
15	Subtotal - Other Inflows	$162	$144	$118	$114	$538	$135	$135	$135	$135	$539	$27	$9	($16)	($21)	($1)
16	**Total Inflows**	**$6,762**	**$5,147**	**$5,733**	**$8,017**	**$25,659**	**$5,780**	**$5,287**	**$5,170**	**$5,885**	**$22,122**	**$982**	**($140)**	**$562**	**$2,132**	**$3,536**
	Payroll and Related Costs (f)															
17	General fund (i)	(630)	(701)	(656)	(664)	(2,651)	(634)	(755)	(665)	(702)	(2,757)	5	54	9	38	105
18	Federal fund	(111)	(123)	(116)	(117)	(466)	(138)	(164)	(147)	(158)	(608)	27	42	31	42	142
19	Other State fund	(37)	(52)	(32)	(37)	(157)	(30)	(36)	(32)	(34)	(132)	(7)	(16)	0	(3)	(25)
20	Subtotal - Payroll and Related Costs	($777)	($876)	($804)	($817)	($3,274)	($802)	($956)	($844)	($895)	($3,496)	$25	$80	$40	$77	$222
	Operating Disbursements (g)															
21	General fund (i)	(476)	(509)	(351)	(400)	(1,736)	(426)	(490)	(483)	(511)	(1,909)	(50)	(19)	132	111	174
22	Federal fund	(481)	(618)	(387)	(449)	(1,935)	(488)	(676)	(585)	(595)	(2,344)	6	58	198	146	408
23	Other State fund	(115)	(155)	(203)	(230)	(702)	(179)	(159)	(155)	(168)	(660)	64	5	(47)	(62)	(41)
24	Subtotal - Vendor Disbursements	($1,072)	($1,281)	($940)	($1,079)	($4,372)	($1,092)	($1,325)	($1,223)	($1,274)	($4,913)	$20	$44	$283	$195	$541
	State-funded Budgetary Transfers															
25	General Fund (i)	(332)	(653)	(511)	(477)	(1,973)	(505)	(476)	(476)	(523)	(1,979)	173	(177)	(35)	45	6
26	Other State Fund	(54)	(67)	(79)	(66)	(266)	(86)	(53)	(53)	(53)	(246)	32	(13)	(26)	(13)	(20)
27	Subtotal - Appropriations - All Funds	($386)	($720)	($590)	($544)	($2,240)	($591)	($529)	($529)	($576)	($2,226)	$205	($190)	($60)	$32	($14)
	Federal Fund Transfers															
28	Medicaid	(1,054)	(226)	(989)	(612)	(2,881)	(1,171)	(711)	(711)	(711)	(3,305)	117	486	(277)	99	424
29	Nutrition Assistance Program	(705)	(565)	(702)	(1,133)	(3,105)	(501)	(463)	(486)	(548)	(1,998)	(204)	(102)	(216)	(585)	(1,106)
30	All other federal fund transfers	(49)	(280)	(352)	(745)	(1,427)	(62)	(62)	–	–	(124)	13	(218)	(352)	(745)	(1,303)
31	Subtotal - Federal Fund Transfers	($1,808)	($1,071)	($2,042)	($2,491)	($7,412)	($1,734)	($1,236)	($1,198)	($1,260)	($5,428)	($75)	$166	($845)	($1,231)	($1,985)
	Other Disbursements - All Funds															
32	Retirement Contributions	(640)	(651)	(625)	(627)	(2,542)	(652)	(652)	(652)	(652)	(2,610)	13	1	28	26	68
33	Tax Refunds & other tax credits (h) (i)	(289)	(20)	(287)	(177)	(773)	(292)	(72)	(140)	(446)	(951)	3	53	(147)	269	178
34	Title III Costs	(58)	(13)	(44)	(42)	(158)	(34)	(18)	(18)	(18)	(88)	(25)	5	(26)	(25)	(70)
35	State Cost Share	–	–	(40)	–	(40)	–	–	–	(213)	(213)	–	–	(40)	213	173
36	Milestone Transfers	(2)	–	–	–	(2)	(14)	(19)	(29)	(29)	(90)	12	19	29	29	88
37	Custody Account Transfers	–	(16)	(21)	(19)	(56)	(5)	(17)	(66)	(213)	(300)	5	1	45	194	244
38	Cash Reserve	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
39	All Other	(58)	18	(15)	(764)	(820)	–	–	–	–	–	(58)	18	(15)	(764)	(820)
40	Subtotal - Other Disbursements - All Funds	($1,047)	($682)	($1,033)	($1,629)	($4,391)	($997)	($778)	($905)	($1,571)	($4,251)	($50)	$97	($128)	($58)	($140)
41	**Total Outflows**	**($5,091)**	**($4,628)**	**($5,409)**	**($6,560)**	**($21,689)**	**($5,217)**	**($4,824)**	**($4,699)**	**($5,575)**	**($20,315)**	**$125**	**$196**	**($711)**	**($985)**	**($1,375)**
42	**Net Operating Cash Flow**	**$1,671**	**$518**	**$323**	**$1,457**	**$3,970**	**$563**	**$462**	**$472**	**$310**	**$1,808**	**$1,108**	**$56**	**($148)**	**$1,146**	**$2,162**
43	Bank Cash Position, Beginning (j)	7,701	9,372	9,890	10,214	7,701	7,701	8,264	8,727	9,198	7,701	–	1,108	1,164	1,015	–
44	**Bank Cash Position, Ending (j)**	**$9,372**	**$9,890**	**$10,214**	**$11,671**	**$11,671**	**$8,264**	**$8,727**	**$9,198**	**$9,509**	**$9,509**	**$1,108**	**$1,164**	**$1,015**	**$2,162**	**$2,162**

Note: *Refer to the next page for footnote reference descriptions.*

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FY21 TSA Cash Flow Actual Results - Footnotes

Footnotes:

(a) Represents FY2020 actual results through June 30, 2020.

(b) Represents gross tax collections received and deposited from all Hacienda Collection Posts, through the Hacienda Colecturia Virtual (online) and/or SURI. Additionally, as of the date of this report, this line item includes unreconciled collections due to DTPR transition to collecting various gross tax receipts through the new SURI system. The transition from the Hacienda Colecturia collections system to SURI is ongoing and as such, revenue concept detail for the general tax SURI collections is not available at this time for the portion of collections received by the new general tax SURI account. This resulted in timing-related unreconciled gross collections which will be retroactively allocated to each revenue concept as appropriate once this information becomes available.

(c) These revenues are collected by DTPR and immediately appropriated.

(d) Inflows related to the State Insurance Fund, the Department of Labor and Human Resources, the Commissioner of Financial Institutions, interest earned on TSA bank accounts and others. As of the date this report the TSA has received $12M in interest income in FY21 from earnings on the TSA cash balance.

(e) As of June 30, 2021, there are $158M in collections in the SURI sweep account pending reconciliation and transfer to the TSA.

(f) Represents total gross payroll. Gross payroll includes net payroll disbursed to government employees, cash transfers to the Police Department for payroll costs, and other payroll related costs (employee withholdings, social security, insurance, and other deductions).

(g) Includes payments to third-party vendors as well as intergovernmental payments to agencies with separate Treasuries.

(h) This line includes $343M of federally-reimbursable tax credits year to date. Of that amount, $317M are COVID-19 related Economic Impact Payments and $25M are American Opportunity Credits. These payments were previously reported in the "Tax Refunds & Other Tax Credits" line. An estimated $17M of these payments were made during May 2021. This figure may be revised as updated information becomes available.

(i) Includes Federally Funded Employee Retention Credits.

(j) These line items include transfers out of the TSA related to the COVID-19 Emergency Measures Support Package. Total TSA outflows related to the COVID-19 Emergency Measures Support Package are approximately $533M as of June 30, 2021. Of this amount, $459M was disbursed in FY2020 and $75M in FY2021.

(k) Excludes BPPR Clawback Accounts (for clawback revenues prior to June 2016) of $147M.

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General Fund Collections Summary

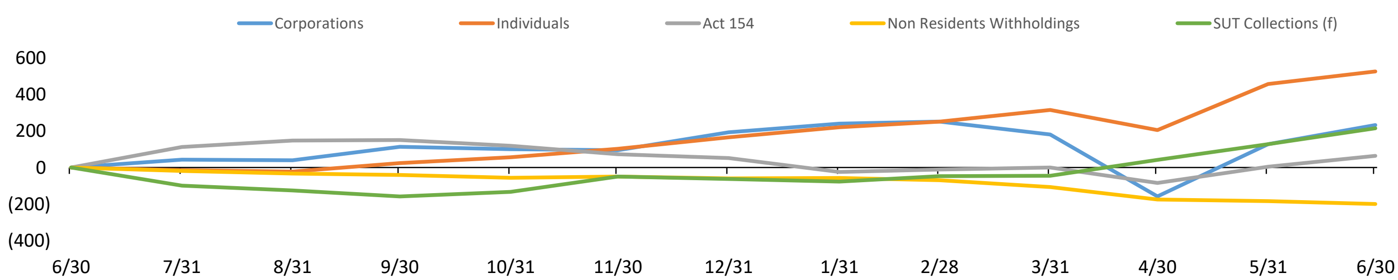
Key Takeaways / Notes

1.) Accumulated collections into TSA sweep accounts are now consistently transferred to the TSA with a 2-4 day lag. This will result in lower, more stable balances in the sweep accounts and more predictable transfers to the TSA when compared to 1Q of this fiscal year. Overall outperformance is due to the impact of increased Federal stimulus and better than expected economic activity during the Covid-19 pandemic. Motor Vehicle outperformance is the result of higher than expected vehicle sales, especially in the truck category. Other General Fund revenue includes $440 million of income taxes from partnerships, which represents a positive variance against the forecast for this category, and $314M of Other Excise Taxes, $298M greater than forecast for FY21. These include revenues that may be retroactively allocated to specific excise tax concepts in the future. Reduced travel throughout FY21 due to the COVID-19 pandemic and associated travel restrictions drove lower non-resident withholdings for the fiscal year. As of the date of this report, there were $158M in collections in the SURI sweep account pending transfer to the TSA, $104M of which are pending reconciliation and allocation to specific revenue concepts. This collections schedule will be updated as information becomes available.

General Fund Collections Year to Date: Actual vs. Forecast ($M)

	Actual (a) YTD 6/30	LP YTD 6/30	Var $ YTD 6/30	Var % YTD 6/30
General Fund Collections				
Corporations	$2,207	$1,993	$214	*11%*
FY21 Collections	1,957	1,776	181	*10%*
FY21 CIT for FEDE (Act 73-2008) (b)	39	57	(18)	*-32%*
FY20 Deferrals/Extensions	211	159	52	*33%*
Individuals	3,052	2,527	525	*21%*
FY21 Collections	2,854	2,233	621	*28%*
FY20 Deferrals/Extensions	198	294	(96)	*-33%*
Act 154	1,754	1,691	63	*4%*
Non Residents Withholdings	379	586	(206)	*-35%*
FY21 Collections	368	567	(199)	*-35%*
FY21 NRW for FEDE (Act 73-2008) (b)	12	19	(7)	*-38%*
Motor Vehicles	615	341	274	*80%*
Rum Tax (c)	253	214	39	*18%*
Alcoholic Beverages	272	266	6	*2%*
Cigarettes (d)	142	128	14	*11%*
HTA	436	548	(112)	*-20%*
Gasoline Taxes	102	166	(64)	*-39%*
Gas Oil and Diesel Taxes	10	21	(11)	*-51%*
Vehicle License Fees ($15 portion)	33	21	12	*56%*
Vehicle License Fees ($25 portion)	79	107	(28)	*-26%*
Petroleum Tax	173	215	(42)	*-19%*
Other	39	18	21	*116%*
CRUDITA	117	259	(142)	*-55%*
Other FY20 Deferrals/Extensions (e)	35	-	35	*NA*
Other General Fund	1,327	457	870	*190%*
Total (e)	**$10,589**	**$9,010**	**$1,579**	***18%***
SUT Collections (f)	2,364	2,150	214	*10%*
FY21 Collections	2,328	1,936	392	*20%*
FY20 Deferrals/Extensions	36	214	(178)	*-83%*
Total General Fund Collections	**$ 12,953**	**$ 11,160**	**$ 1,793**	***16%***
Transfer of FY20 Closing Sweep Balance	1,024	1,024	-	*0%*
Total TSA Cash General Fund Collections	**$ 13,977**	**$ 12,184**	**$ 1,793**	***15%***

YTD General Fund Receipts Cumulative Variance Liquidity Plan vs. Actual Cumulative Variance by Category ($M)



Footnotes:

(a) General Fund gross cash receipts by concept are approximated using net General Fund revenues adjusted for recurring monthly gross-ups and other adjustments.
(b) Relates to income tax reserves that are subsequently passed through to PRIDCO.
(c) This amount includes rum tax moratorium revenues.
(d) Includes some cigarette tax collections that are subsequently passed through to HTA, PRMBA and other.
(e) This amount includes FY20 Income Tax from Partnerships. Note the Liquidity Plan projection for this line item was rolled up in Corporate Income Tax deferrals/extensions.
(f) SUT collections excludes PSTBA, FAM & CINE, and only includes the amounts deposited into the TSA for General Fund use.

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Other State Fund Collections Summary

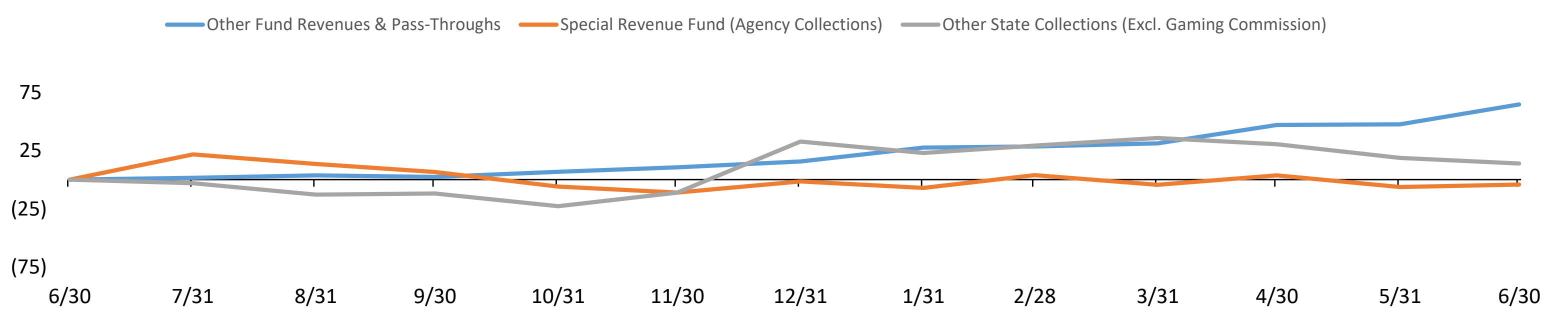
Key Takeaways / Notes

1.) Other state fund collections are ahead of the Liquidity Plan. Positive "All Other" variance in Other State Collections is mainly due to +$232M collections by the new Gaming Commission. The Liquidity Plan did not consider a projection for Gaming Commission collections nor the subsequent disbursements to hoteliers & others of these funds (as this flow of funds was previously managed outside the TSA by the PR Tourism Company). Therefore, despite the positive variance presented in the table to the right, this is offset by approximately $165M in outflows of these receipts for a net variance of +$67M. This variance is permanent with respect to the FY21 Liquidity plan; however, it should be net cash flow neutral over the long term and funds may be disbursed early in the next fiscal year.

Other State Fund Collections Year to Date: Actual vs. Forecast ($M)

	Actual (a) YTD 6/30	LP YTD 6/30	Var $ YTD 6/30	Var % YTD 6/30
Other State Fund Collections				
Other Fund Revenues & Pass-Throughs	$272	$208	$65	*31%*
Electronic Lottery	81	29	52	*183%*
Cigarettes (PRITA)	36	36	-	*0%*
ASC Pass Through	17	20	(3)	*-16%*
ACCA Pass Through	90	69	21	*31%*
Other	48	54	(6)	*-11%*
Special Revenue Fund (Agency Collections)	430	434	(4)	*-1%*
Department of Education	10	16	(6)	*-39%*
Department of Health	63	76	(13)	*-17%*
Department of State	30	14	16	*111%*
All Other	328	329	(1)	*0%*
Other State Collections	634	388	245	*63%*
Bayamón University Hospital	5	9	(4)	*-44%*
Adults University Hospital (UDH)	45	27	18	*68%*
Pediatric University Hospital	17	20	(2)	*-11%*
Commisioner of the Financial Institution	82	30	52	*174%*
Department of Housing	22	14	7	*51%*
Gaming Commission	232	-	232	*NA*
All Other	231	289	(58)	*-20%*
Total	**$1,336**	**$1,030**	**$306**	***30%***

YTD Other State Fund Receipts Cumulative Variance Liquidity Plan vs. Actual Cumulative Variance by Category ($M)



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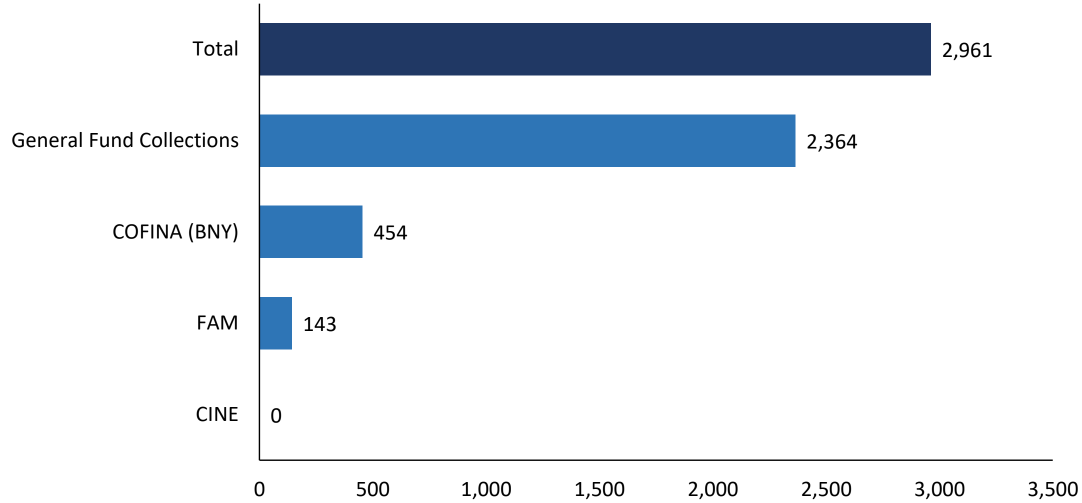
Sales and Use Tax Collections Summary

Key Takeaways / Notes

1.) The proceeds from the Puerto Rico 10.5% SUT rate are allocated as follows: Of the 10.5%, 5.5% is deposited into a COFINA BNY Mellon account until the PSTBA cap is reached, and 4.5% is deposited into the General Fund. The remaining 0.5% is remitted to FAM. The PSTBA cap for FY21 is $454 million.

YTD Gross SUT Collections - General Fund and PSTB ($M) (a)



Footnotes

(a) This schedule reflects gross cash activity and is subject to revision based on periodic reconciliations and accounting adjustments.

(b) As of June 30, 2021 there is $54M in SUT collected pending verification and allocation. The verification process includes matching receipts with the appropriate returns and reconciling government account information. Once this process is complete, SUT funds are distributed in accordance with the COFINA Plan of Adjustment based on the ownership of funds and otherwise based on the limits on distributions established therein.

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Federal Funds Net Cash Flow Summary

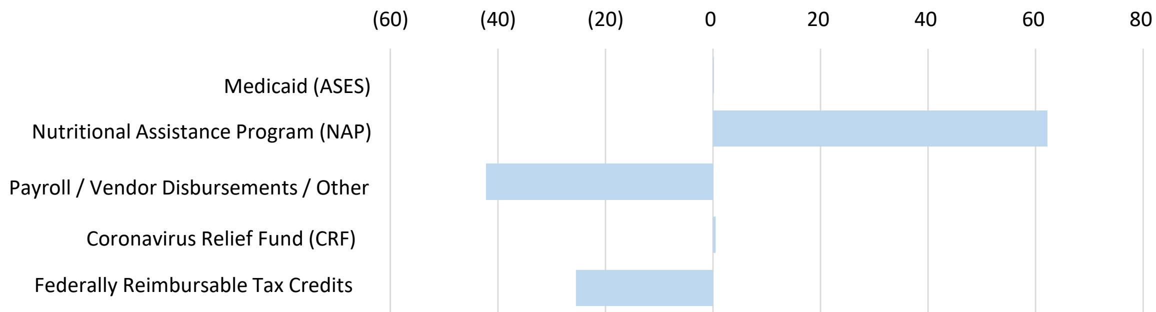
Key Takeaways / Notes

1.) Receipts for the Nutritional Assistance Program (NAP) and Medicaid (ASES Pass-through) are received in advance of the subsequent pass through disbursements. Federal Funds received for Payroll and Vendor Payments are typically reimbursed following disbursement. Currently, there may be temporary surplus / (deficit) due timing differences relating to prior year carryover. Puerto Rico received $2.24 billion from the Coronavirus Relief Fund (CRF) established under the CARES Act. These funds are held in a separate account outside of TSA and being disbursed according to the Strategic Disbursement Plan. Some of the measures are initially paid out through TSA, and later reimbursed from the CRF account. Additionally, on May 19, 2021, $2.5 billion of federal Coronavirus State & Local Fiscal Recovery funds (CSFRF) were deposited in the TSA. These were immediately transferred to a separate account under custody of Hacienda on May 20, 2021 and this pass-through is not reflected in TSA inflows and outflows within this report. The TSA disbursed $343M of federally-reimbursable tax credits between January 1, 2021, and May 28, 2021. These include $317M of COVID-19 related Economic Impact Payments and $25M of American Opportunity Credits. These payments were previously reported in the "Tax Refunds & Other Tax Credits" line of the TSA cash flow.

Monthly FF Net Surplus (Deficit)	FF Inflows	FF Outflows	Net Cash Flow	LP Net Cash Flow	Variance
Medicaid (ASES)	$ 255	$ (257)	$ (2)	$ -	$ (2)
Nutritional Assistance Program (NAP)	402	(390)	12	-	12
Payroll / Vendor Disbursements / Other Federal Programs	195	(168)	27	-	27
Coronavirus Relief Fund (CRF)	407	(359)	49	-	49
Federally Reimbursable Tax Credits	4	-	4		4
Total (a)	**$ 1,264**	**$ (1,174)**	**$ 90**	**$ -**	**$ 90**

YTD Cumulative FF Net Surplus (Deficit)	FF Inflows	FF Outflows	Net Cash Flow	LP Net Cash Flow	Variance
Medicaid (ASES)	$ 2,881	$ (2,881)	$ 0	$ (51)	$ 51
Nutritional Assistance Program (NAP)	3,167	(3,105)	62	-	62
Payroll / Vendor Disbursements / Other Federal Programs	1,759	(1,802)	(42)	-	(42)
Coronavirus Relief Fund (CRF)	1,684	(1,683)	0	42	(42)
Federally Reimbursable Tax Credits	318	(343)	(25)		(25)
Total (a)	**$ 9,808**	**$ (9,813)**	**$ (5)**	**$ (9)**	**$ 4**

YTD Federal Funds Net Cash Flows ($M)



Footnotes

(a) Please note that federal fund classification as represented here is based on the fund classification at the point of transaction. Agencies regularly review cash transactions and make accounting adjustments that result in fund reclassifications.

(b) Note that the Liquidity Plan will generally project a YTD deficit and surplus each week for Medicaid and CRF funding, respectively. This is due to deficit and surpluses carried forward from FY20 (FY20 federal receipts in excess of FY20 federal fund outlays and spending prior to CRF reimbursement) that were assumed to unwind throughout the first quarter of FY21 as funds received in FY20 were utilized, thus resulting in projected net cash flow deficits and surpluses for the full year FY21 in Medicaid funding (-$51M) and CRF ($42M), yielding a projected -$9m net deficit projected for FY21. Aside from the aforementioned projected cash flow surplus and deficit, all other federally funded cash flows are assumed to result in zero net cash flow for the full FY20, and week-to-week variations are assumed to be timing related.

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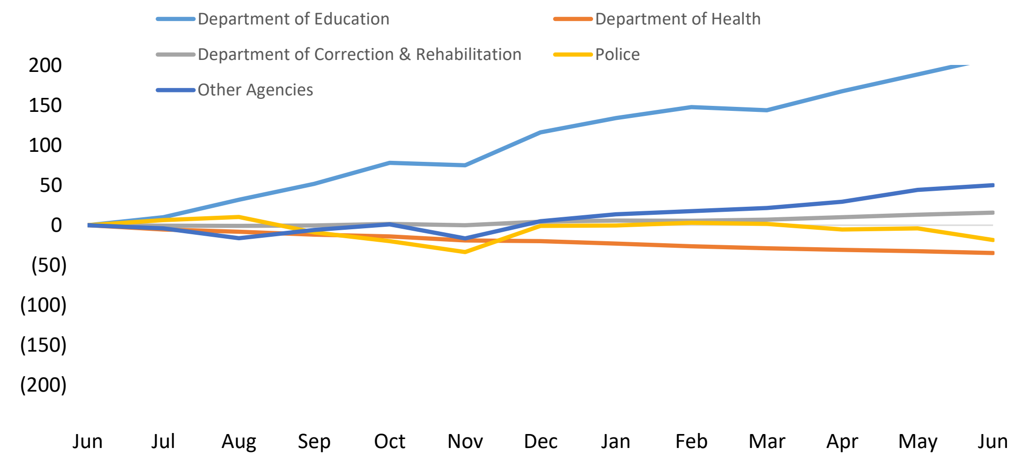
Payroll / Vendor Disbursements Summary

Key Takeaways / Notes : Gross Payroll

1.) Gross payroll mainly tracked FY21 forecasts. Most variance was driven by DOE payroll, likely due to COVID-19 and the subsequently adjusted and abnormal school year. DOE payroll variance dropped during the week ended 3/26 due to a one-time settlement related to DOE transitory employee salaries. The FY21 Certified Budget included a $23M reserve for this item that appears in the Custody Account Transfers line of the FY21 Liquidity Plan.

Gross Payroll ($M) (a) Agency	YTD Variance
Department of Education	210
Department of Health	(35)
Department of Correction & Rehabilitation	16
Police	(18)
All Other Agencies	50
Total YTD Variance	**$ 222**

Cumulative YTD Variance - Payroll by Agency ($M) (a)

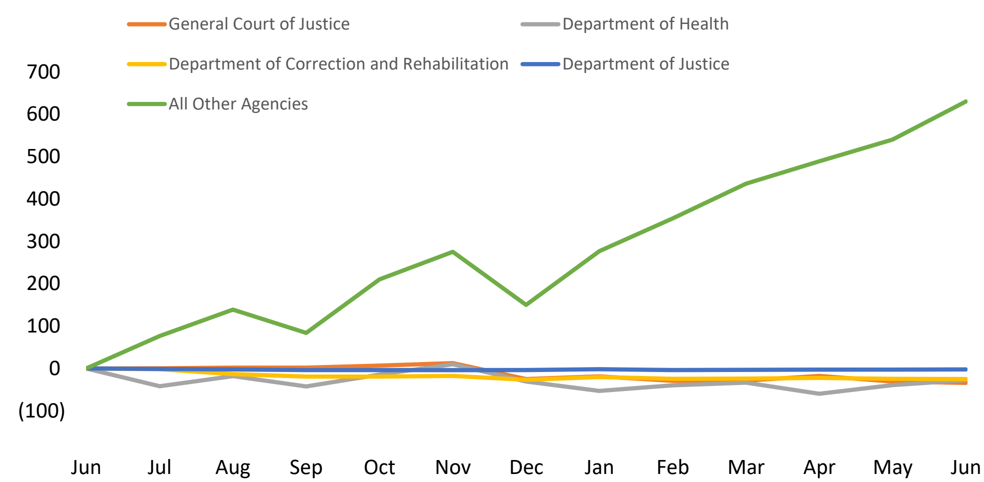


Key Takeaways / Notes : Vendor Disbursements

1.) Total vendor payments were less than projected, though there are various offsetting variances within. Disbursements on behalf of the Department of Education are $460M lower than expected. This is offset by negative variance due to several items, including a portion of CARES Act assistance amounting to $292M that was paid through the TSA on behalf of Treasury to vendors and subsequently reimbursed from the CRF account, which includes $22M distributed for the Private Hospitals initiative during the week ended 12/18.

Vendor Disbursements ($M) Agency	YTD Variance
General Court of Justice	(34)
Department of Health	(27)
Department of Correction and Rehabilitation	(25)
Department of Justice	(2)
All Other Agencies	630
Total YTD Variance	**$ 541**

Cumulative YTD Variance -Vendor Disbursements by Agency ($M)



Footnotes

(a) Gross Payroll is equal to the sum of: (i) Net Payroll by Agency from the DTPR RHUM system; (ii) Other Payroll and (iii) Cash outlays for wage garnishments by Agency.

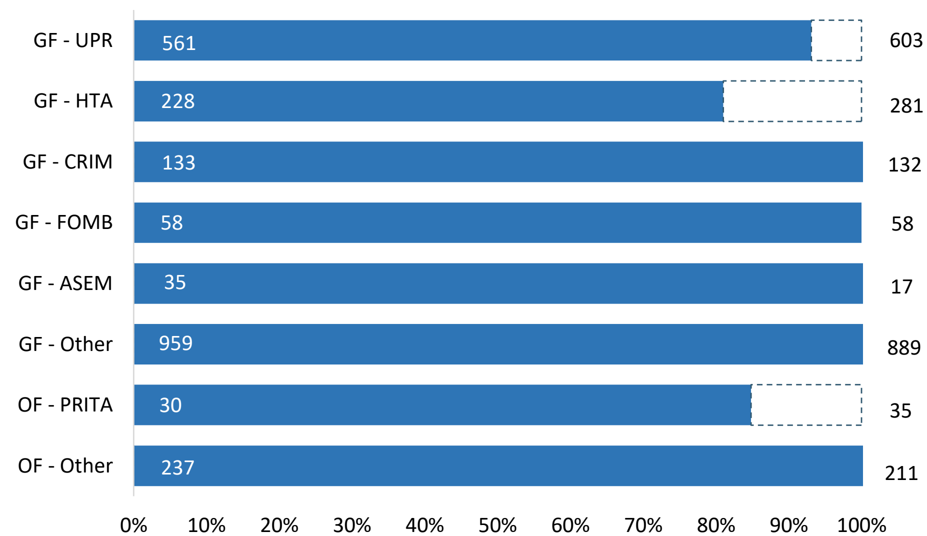
Puerto Rico Department of Treasury | AAFAF

State Funded Budgetary Transfers Summary

Key Takeaways / Notes

1.) General Fund appropriations are generally executed throughout the year on a consistent basis in the first week of a given month. The amount transferred each month is usually the sum of the receiving entity's budgeted amount for FY21 divided into twelve, subject to a 2.5% holdback through the first nine months of the fiscal year, to be disbursed during the fourth quarter following reconciliation of General Fund revenues to Fiscal Plan projections and subsequent approval and authorization for release by the Oversight Board and the Director of OMB. Other General Fund transfers and Other Fund transfers require the recognition of certain revenues within DTPR accounting records prior to sending funds to a receiving entity. Negative Other GF variance is driven by $43.7M in funds reprogrammed from the FY20 Healthcare reserve account for UPR Cancer. The $72.5M reprogrammed from the FY20 Healthcare reserve account and transferred to ASES throughout FY21 to cover costs associated with contracts between ASES and several Managed Care Organizations were returned to the TSA during the week ended May 5, 2021.

YTD FY2020 Budgeted Appropriations Executed ($M)



Remaining Appropriation Budget ($M)

Entity Name	Actual YTD	Full Year Expectation	Remaining
GF - UPR	$ 561	$ 603	$ 42
GF - HTA	228	281	53
GF - CRIM	133	132	(1)
GF - FOMB	58	58	-
GF - ASEM	35	17	(18)
GF - Other	959	889	(70)
OF - PRITA	30	35	5
OF - Other	237	211	(25)
Total	**$ 2,240**	**$ 2,226**	**$ (14)**

YTD Appropriation Variance ($M)

Entity Name	Actual YTD	Liquidity Plan YTD	Variance
GF - UPR	$ 561	$ 603	$ 42
GF - HTA	228	281	53
GF - CRIM	133	132	(1)
GF - FOMB	58	58	-
GF - ASEM	35	17	(18)
GF - Other	959	889	(70)
OF - PRITA	30	35	5
OF - Other	237	211	(25)
Total	**$ 2,240**	**$ 2,226**	**$ (14)**

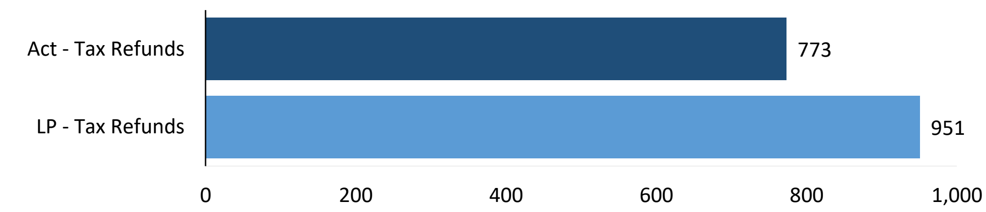
Puerto Rico Department of Treasury | AAFAF

Tax Refunds / PayGo and Pensions Summary

Key Takeaways / Notes : Tax Refunds

1.) Tax refunds includes EITC distributions, refunds to individuals and seniors as well as other tax credits. Variance to the Liquidity Plan mostly a combination of (i) various EITC benefits realized in the form of credit against tax liabilities owed by EITC benficiaries instead of cash distributions as contemplated with the Liquidity Plan; and (ii) timing differences arising from the extension of tax filing deadlines due to the COVID-19 pandemic.

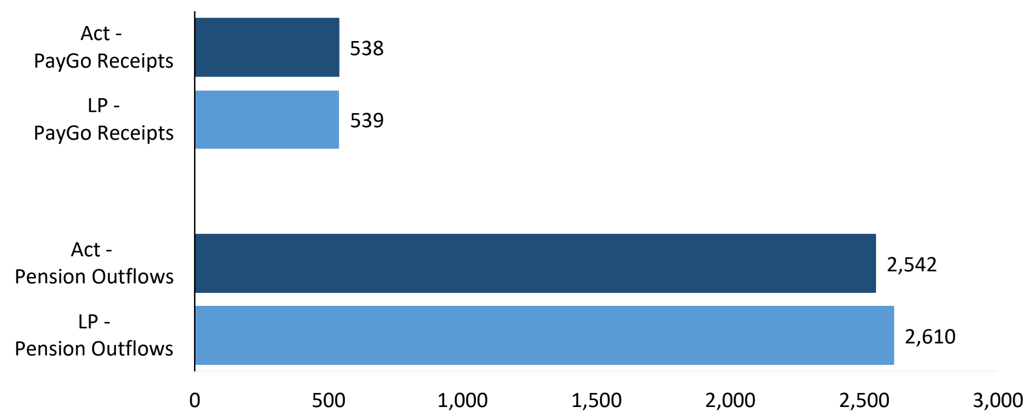
YTD Tax Refunds Disbursed ($M)



Key Takeaways / Notes : Pension PayGo

1.) PayGo Receipts finished the year in line with forecast, though there are various offsetting positive and negative variances within due to payments received in FY21 from certain Component Units for FY20 and FY19 invoices. Such receipts from the State Insurance Fund, PRIDCO, and ACAA, totaling $31.7M, $12.2M, and $5.3M, and through December 2020, respectively, are primary drivers of this variance. FY20 PayGo payments totaling $6.0M from the Ports Authority received through the week ended 11/6 this fiscal year also contribute to this variance. Further details on the status of PayGo can be found in the monthly PayGo Reports published on AAFAF's website.

YTD Pension PayGo and Outflows ($M)



press release

PUERTO RICO FEDERAL AFFAIRS ADMINISTRATION

FOR IMMEDIATE RELEASE

Governor Pierluisi Outlined Plan for State-Like Treatment on Puerto Rico's Medicaid Program

(June 1, 2021 – Washington, DC) – Today, Governor Pedro R. Pierluisi held a meeting with the Puerto Rico Health Care Working Group he established via Executive Order-2021-025 to advance Puerto Rico's health initiatives in Congress. The main purpose of the meeting was to discuss the Medicaid plan for Puerto Rico that seeks to avoid the fiscal cliff by extending state-like treatment to Puerto Rico. The discussion included several long-term projections and funding scenarios of different levels of Federal Medical Assistance Percentage (FMAP). The Medicaid state-like treatment plan for Puerto Rico is in accordance with President Biden's priorities for Puerto Rico included in his budget release last Friday.

Specifically, the President's budget included language that eliminates Medicaid funding caps for Puerto Rico and the territories while aligning their matching rate with those of the states and moving towards parity in this and other federal programs. The President's budget serves as a starting point for lawmakers to determine funding levels and national spending priorities.

Historically, Puerto Rico's Medicaid program has been underfunded compared to those states with a higher per-capita income and lower populations; this has resulted in the prevalence of chronic conditions and a lack of adequate medical infrastructure for residents of the island. Today, Puerto Rico's Medicaid program serves over 1.4 million low-income U.S. citizens, with 43.5 percent of the population below the federal poverty level (FPL). Without Congressional action the island will have a funding shortfall that would result in approximately 800,000 currently enrolled beneficiaries forced off the program. It will see a reduction in covered benefits, stress on the island-wide budget, and shortfall of healthcare providers and beneficiary flight to the mainland.

Puerto Rico's Medicaid program has an annual capped federal allotment that oscillated between \$300 - \$380 million and an FMAP of 55 percent between 2011- 2019, without the additional funding appropriated throughout the years. Without temporary increases authorized by Congress, Puerto Rico's statutorily capped federal funding amount would have been only \$360 million.

Exhibit E

It is important to note that Congress has provided an increase in temporary funding through various different legislative vehicles like the "Affordable Care Act" (ACA) (+$6.4 billion and an increase in FMAP from 50 percent to 55 percent), the "Consolidated Appropriations Act" (+$0.3 billion and a 55 percent FMAP), "Bipartisan Budget Act" (BBA) (+3.6 billion and an increase in FMAP from 55 percent to 100 percent), the "Further Consolidated Appropriations Act of 2020" (FCA) (+5.3 billion with a 76 percent FMAP), and lastly the "Family First Coronavirus Response Act" (FFCRA), (an increase in FMAP from 76 percent to 82.2 percent). These recent temporary funding increases have provided short-term solutions to a long-term problem.

While these additional funding mechanisms are a short-term solution, they have allowed Puerto Rico to expand the quality of health care by providing beneficiaries additional services like comprehensive diabetes care, adequate control of high blood pressure, weight counseling for children, adults BMI screening, and women's timely postpartum care. Furthermore, there has been expanded eligibility with up to 200,000 new members after the increase of the Puerto Rico FPL to 85 percent. An additional increase in payments to health care providers with an expansion of telehealth, an elevation of the Medicare Part B provider reimbursement, and payments to hospitals and physicians. Moreover, an increase in covered benefits with a life-saving Hepatitis C treatment for over 14,000 individuals.

"If Puerto Rico was treated as a state for purposes of Medicaid the island would be receiving over $3 billion in FY 22 with an FMAP as high as 83 percent, meaning that Puerto Rico's burden will be as little as 13 percent. We would also be eligible for a separate annual federal allotment of Medicaid Disproportionate Share (DSH) which helps defray the unmet cost of serving Medicaid to uninsured individuals and U.S. Citizens residing in states below 150 percent of the FPL are eligible for the Low-Income Subsidy (LIS) for Medicare Part D (for copayments and deductibles)" said Governor Pierluisi.

"I have been working relentlessly to ensure that Puerto Rico's Medicaid and Medicare programs are funded at a level similar to the states. The President has prioritized Puerto Rico and now it's up to Congress to act. We must address the disparities in all federal programs that have long perpetuated the unequal treatment of the U.S. citizens of Puerto Rico." concluded Governor Pierluisi.

"We need to remove the cap the in the allotment so Puerto Rico can receive adequate, sustained funding, and apply an 83 percent FMAP according to our estimates Puerto Rico will need an allocation $5.2 billion in federal funds to be able to begin a 5-year transition to provide services to the beneficiaries similar to their counterparts in the states. We will continue working with the Puerto Rico Working Health Care Group and the Biden-Harris Administration to make sure that Congress finds a permanent fix to our Medicaid program," said PRFAA's Executive Director, Carmen M. Feliciano.

Governor Pierluisi's proposal includes several scenarios considering a baseline of a five-year projection:

- **State-like Treatment**: Funding Scenario at 83 percent FMAP at an 83 percent with a program eligibility at 85 percent FPL, this would amount to $5.0 billion for FY 2022 in federal funding.

- **State-like Treatment**: Funding Scenario at 83 percent FMAP at an 83 percent with a program eligibility at 100 percent FPL, this would amount to $5.1 billion for FY 2022 in federal funding.

- **State-like Treatment**: Funding Scenario at 83 percent FMAP at an 83 percent with a program eligibility at 133 percent FPL, this would amount to $5.2 billion for FY 2022 in federal funding.

###

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BUDGET OF THE U.S. GOVERNMENT

FISCAL YEAR 2022

OFFICE OF MANAGEMENT AND BUDGET

THE WHITE HOUSE
WASHINGTON

Exhibit F

home- and community-based services for older people and people with disabilities and strengthening the workforce that provides this vital care. The American Families Plan makes permanent the American Rescue Plan's expansion of premium tax credits and makes a historic investment to improve maternal health and mortality.

Beyond these steps, the President also calls on the Congress to take action this year to reduce prescription drug costs and to further expand and improve health coverage. The President's healthcare agenda in these areas includes the following additional policies:

Lowering the Costs of Prescription Drugs. The President supports reforms that would bring down drug prices by letting Medicare negotiate payment for certain high-cost drugs and requiring manufacturers to pay rebates when drug prices rise faster than inflation. These reforms would lower drug costs and save money for Medicare beneficiaries and people with job-based insurance. The reforms could also yield over half a trillion in Federal savings over 10 years, which could help pay for coverage expansions and improvements.

Improving Medicare, Medicaid, and ACA Coverage. Medicare, Medicaid, and the ACA marketplaces provide critical coverage to tens of millions of Americans, but should be strengthened through measures like improving access to dental, hearing, and vision coverage in Medicare, making it easier for eligible people to get and stay covered in Medicaid, and reducing deductibles for marketplace plans. The President also supports eliminating Medicaid funding caps for Puerto Rico and other Territories while aligning their matching rate with States (and moving toward parity for other critical Federal programs including Supplemental Security Income and the Supplemental Nutrition Assistance Program). Further, evidence shows that we can reform Medicare payments to insurers and certain providers to reduce overpayments and strengthen incentives to deliver value-based care, extending the life of the Medicare Trust Fund, lowering premiums for beneficiaries, and reducing Federal costs.

Creating Additional Public Coverage Options. The President supports providing Americans with additional, lower-cost coverage choices by: creating a public option that would be available through the ACA marketplaces; and giving people age 60 and older the option to enroll in the Medicare program with the same premiums and benefits as current beneficiaries, but with financing separate from the Medicare Trust Fund. In States that have not expanded Medicaid, the President has proposed extending coverage to millions of people by providing premium-free, Medicaid-like coverage through a Federal public option, paired with financial incentives to ensure States maintain their existing expansions.

Healthcare is a right, not a privilege. Families need the financial security and peace of mind that comes with quality, affordable health coverage. In collaboration with the Congress, the President's healthcare agenda would achieve this promise.

Exhibit F

press release

PUERTO RICO FEDERAL AFFAIRS ADMINISTRATION

FOR IMMEDIATE RELEASE

Governor Pierluisi Meets with Senator Manchin to Discuss State-Like Treatment in Puerto Rico's Medicaid Program

(July 29, 2021 – Washington, DC) – Governor Pedro R. Pierluisi met with Senator Joe Manchin (D-WV) to discuss the implications of the bipartisan agreement reached in the Subcommittee on Health of the House Energy & Commerce Committee that seeks to prevent the Island's forthcoming "Medicaid cliff." The compromise would provide Puerto Rico's Medicaid program five years of federal funding, starting with Fiscal Year 2022 on October 1st, 2021, with a Federal Matching Assistance Percentage (FMAP) of 76 percent. The proposal for Puerto Rico contrasts with the 8 years of funding and 83 percent FMAP for the other U.S. territories.

During the meeting, Governor Pierluisi talked about President Biden's budget proposal, which includes language to provide equal treatment for Puerto Rico in the Medicaid program. The Governor reaffirmed that providing the same funding other states receive is the only long-term solution for the historical disparate and unequal treatment of the U.S. citizens of Puerto Rico in the Medicaid program.

"I thank Senator Manchin for meeting with me to discuss Puerto Rico's Medicaid program and the upcoming "Medicaid Cliff." I am grateful for the bipartisan agreement because it provides the Island immediate relief. However, I want a permanent solution that provides stability to the program and guarantees the funding needed to provide adequate healthcare to the people of Puerto Rico. I will keep fighting for state-like treatment for Puerto Rico's Medicaid program and look forward to continuing to work and collaborate with Senator Manchin on this and other issues," said Governor Pierluisi.

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Exhibit G

Jenniffer González Announces that Medicaid Already Has $ 2.9 Billion for Next Fiscal Year

September 15, 2021 | Press Release

San Juan, Puerto Rico- Resident Commissioner Jenniffer González Colón announced that funds for the federal Medicaid health program for the following fiscal year 2021 are insured, totaling $ 2.9 billion according to an official communication from the United States Department of Health.

"Federal health has just informed us that Puerto Rico is no longer at risk of losing Medicaid funds, securing $ 2.9 billion for the next fiscal year. This is because they are interpreting the law that we worked on in 2019, which provided the 2 years of additional funds, for Medicaid in Puerto Rico, in such a way that the base amount of Medicaid for the island was increased to the amount of 2020 , to which is added an amount for inflation. Ensuring health services has always been my priority, I am pleased to give this good news to the more than 1.5 million beneficiaries of the health card. However, I will continue to advocate for additional funds and adjustments in the FMAP so that our Health Card beneficiaries have access to all the benefits that the program establishes ",

The United States Department of Health (HHS) explained that when preparing estimates of Medicaid allocations for the following fiscal year, the Centers for Medicare & Medicaid Services (CMS) noted that the calculations for allocations for fiscal year 22 and each subsequent fiscal year are significantly higher

than anticipated. Furthermore, the reading given in relation to Puerto Rico turns out to be different from the other territories.

For the four territories of American Samoa, the Northern Mariana Islands, Guam, and the Virgin Islands, the agency used fiscal year 21 as the basis for subsequent year calculations. As a result, for fiscal year 22, CMS will multiply the percentage increase in the CPI-M or medical inflation index (2.7%) by the limits of fiscal year 21.

For Puerto Rico, HHS understands that the fiscal year 20 amount was established as the base. As a result, for fiscal year 22, CMS will multiply the fiscal year 20 limit by the CPI-M, or $ 2.7 billion, the percentage increase in the CPI-M (5.5% for fiscal year 20 to fiscal year 21, then 2.7% for fiscal year 21 through fiscal year 22).

As a result of this reading, here are the allocations to the territories for fiscal year 22:
• American Samoa $ 87,860,000
• Guam $ 133,210,000
• Northern Mariana Islands. $ 64,010,000
• Virgin Islands $ 131,390,000
• Puerto Rico $ 2,943,000,000

After fiscal year 22, the annual allocation will be equal to the maximum amount of the previous fiscal year multiplied by the CPI-M, for all territories, accordingly. These funding amounts reduce the risk of future deficits, but will not eliminate the deficits completely. For example, Puerto Rico is likely still projecting a federal funding shortfall for fiscal year 22, although it will likely arrive later in the fiscal year than originally anticipated.

HHS further said that the fact that they have interpreted the law to provide higher Medicaid allocations for the territories does not affect the FMAP established by law for the territories. The FMAP decreases that will occur beginning in fiscal year 22 (for example, Puerto Rico's FMAP is reduced from 76% to 55%) could create significant challenges for the territories' ability to generate local funds to maintain services. For example, compared to a FMAP of 76%, a FMAP of 55% would result in Puerto Rico having to generate more than $ 600 million more of funds from its own territory to obtain the same amount of federal funds in fiscal year 22 .

the 55% FMAP is the same percentage that was Puerto Rico before hurricanes 2017, when the formula was adjusted.

NEWS

White House confirms Medicaid funding for Puerto Rico to avoid a fiscal cliff in the short term

They anticipate a permanent appropriation of more than $3 billion, plus inflation, but Puerto Rico's government warns FMAP levels still need legislation

For Fiscal Year 2022 which begins October 1, the appropriation could reach $2.943 billion, according to Jenniffer González, Resident Commissioner in Washington.

Washington D.C. - The **U.S. Department of Health (https://www.hhs.gov/)**has interpreted the 2019 law that increased annual Medicaid funding for Puerto Rico to about $2.9 billion as permanently raising that allocation, including an annual inflation adjustment for the cost of medical services.

The **White House** said this afternoon that this will represent an investmen of more than $3 billion annually permanently that would avoid a fiscal cliff in Puerto Rico's health care system in the short term.

For Fiscal Year 2022 which begins October 1, the appropriation could reach $2.943 billion, according to Jenniffer González, Resident Commissioner in Washington.

Although the federal Health Department's decision avoids a $2.4 billion fiscal cliff in the health system by October 1, it will still be necessary to review FMAP levels for federal Fiscal Year 2022 to avoid a cliff next year.

"That's why legislation must be passed now," said Puerto Rico Federal Affairs Administration (PRFAA) Executive Director Carmen Feliciano.

Under the current temporary law, the federal government contributes 76 percent of the funds for each Medicaid service. But, the federal contribution would fall back to 55 percent of the permanent law without new legislation before October 1.

According to the White House, this maintains the existing expanded funding level for Medicaid in Puerto Rico, and it is a step toward parity for the island. We look forward to working with Congress to address the parity rate for Puerto Rico which, without Congressional action, will return to unacceptable levels.

Commissioner González said the projected funding reduces the risk of future deficits but does not eliminate them. "Puerto Rico is still likely to project a federal funding deficit for Fiscal Year 2022, however, it will likely come later than originally anticipated," the commissioner said.

González said that if FMAP levels for Medicaid services - Federal Medical Assistance Percentage - remain at 55 percent again, "Puerto Rico would have to generate more than $600 million" from its budget in 2022.

A White House spokeswoman said that as they prepared to calculate the FY2 totals for each territory, “we noted that the calculations and formulas, as outlined in the statute, resulted in amounts that were higher than anticipated by many stakeholders. The new capped amounts will grow annually based on the rate of inflation for medical services.”

Commissioner González said she had asked the federal Department of Health about the possibility of resolving the appropriation administratively.

The legal analysis determined that they do not require a new law to maintain the same level of appropriations, but they do need congressional approval to increase the FMAP level again.

Congressional leadership plans to use the Continuing Budget Resolution that must be approved before the end of the month - to avoid a partial government shutdown - to include a four- or five-year Medicaid appropriation of about $15 billion, about the same average annual amount that the U.S. Department of Health plans to allocate.

But the health industry and the Puerto Rico government had complained that the allocation proposed by the U.S. House Energy and Commerce Committee not only fell short of parity but did not include a mechanism to increase funds based on inflation in the cost of medical services.

“This improves the agreement,” said Commissioner González, who is still confident that the Democratic leadership will include in the Continuing Budget resolution a new Medicaid appropriation based on $2.9 billion, instead of the $392.5 million that was thought to be the permanent appropriation.

González indicated that other funds should still be included, such as the $200 million annual allocation that is granted as long as 70 percent of the money is guaranteed to stay in the hands of health care providers. “I want to bring the allocation to $3.5 billion annually,” she said.

Puerto Rico only offers 10 of the 17 Medicaid programs. “This allocation mus be increased to $4.5 billion federal and $700 million state, with an FMAP level of 83 percent to meet all Medicaid requirements,” said Javier Llano, a lobbyist with Capitol Advisors who represents insurer MCS.

EXHIBIT N

LATEST AUDITED FINANCIAL STATEMENTS FOR THE DEBTORS

COMMONWEALTH OF PUERTO RICO

Basic Financial Statements
and Required Supplementary Information

June 30, 2018

(With Independent Auditors' Report Thereon)

Exhibit J

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

Fiscal Year Ended June 30, 2018

Commonwealth of Puerto Rico

Honorable Pedro Pierluisi Urrutia
Governor

Prepared by:

Puerto Rico Department of the Treasury

Francisco Parés Alicea, CPA
Secretary of the Treasury

Angel Pantoja Rodríguez, Esq.
Under Secretary of the Treasury

Jeira Belén Ortíz, Esq.
Assistant Secretary of Central Accounting

Exhibit J

KPMG

KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

Independent Auditors' Report

The Honorable Governor and Legislature
Commonwealth of Puerto Rico
San Juan, Puerto Rico

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Puerto Rico (the Commonwealth) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following entities and funds:

- *Governmental Activities*
  - Corporation of Industries for the Blind and Mentally Retarded and Incapacitated Persons of Puerto Rico, Office of Legislative Services, Office for the Improvement of Public Schools, Superintendence of the Capitol Building, Puerto Rico House of Representatives, Puerto Rico Senate, Puerto Rico Public Housing Administration, Puerto Rico Housing Finance Department – Sales and Acquisition Fund, and Puerto Rico Department of Economic Development and Commerce, which collectively represent 8.06% and 2.65% of the total assets and revenues, respectively, of the General Fund.
  - Puerto Rico Maritime Shipping Authority, Special Communities Perpetual Trust special revenue and debt service funds, Public Buildings Authority, University of Puerto Rico Comprehensive Cancer Center, Puerto Rico Infrastructure Financing Authority, The Children's Trust, Puerto Rico Fiscal Agency and Financial Advisory Authority, and Ponce Authority, which are non-major governmental funds that represent 20.59% and 8.61% of the total assets and revenues, respectively, of the aggregate remaining fund information.

  These entities and funds collectively represent 35.26% and 3.03% of the total assets and revenues, respectively, of the governmental activities.

- *Business-Type Activities*
  - Unemployment Insurance Fund, which is a major enterprise fund.
  - Puerto Rico Health Insurance Administration, which is a major enterprise fund.
  - Puerto Rico Medical Services Administration, which is a major enterprise fund.

Exhibit J

KPMG

– The Additional Lottery System, the Puerto Rico Water Pollution Control Revolving Fund, Puerto Rico Safe Drinking Water Treatment Revolving Loan Fund, the Governing Board of 9-1-1 Services, Disability Insurance Fund, Drivers' Insurance Fund, and Ponce Ports Authority, which are non-major enterprise funds that collectively represent 25.93% and 51.58% of the total assets and revenues, respectively, of the aggregate remaining fund information.

These entities and funds collectively represent 97.04% and 92.09% of the total assets and revenues, respectively, of the business-type activities.

- *Aggregate Discretely Presented Component Units*

  The discretely presented component units listed in note 1(c) to the basic financial statements. These entities collectively represent 74.93% and 59.56% of the total assets and revenues, respectively, of the aggregate discretely presented component units.

Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the entities and funds indicated above, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

Opinion unit	Type of opinion
Governmental activities	Unmodified
Business-type activities	Unmodified
Aggregate discretely presented component units	Qualified
General fund	Unmodified
Debt service fund	Unmodified
ERS Special evenue fund	Unmodified
COFINA Special revenue fund	Unmodified
COFINA Debt service fund	Unmodified
Unemployment insurance fund	Unmodified
Puerto Rico Health Insurance Administration Fund	Unmodified
Puerto Rico Medical Services Administration Fund	Unmodified
Aggregate remaining fund information	Qualified

Basis for Qualified Opinions (Scope Limitation) for Aggregate Discretely Presented Component Units and Aggregate Remaining Fund Information

Basis for Qualified Opinions – Unaudited Contingency and Compensated Absences Amounts

We were unable to obtain sufficient appropriate audit evidence regarding an accrual for legal contingency of approximately $212 million and regarding accrued compensated absences in the amount of approximately $108 million recorded in the 2018 financial statements of the Puerto Rico Electric Power Authority (PREPA), a discretely presented component unit of the Commonwealth.

Basis for Qualified Opinions – Unaudited Pension Amounts

The Additional Lottery Fund and the Governing Board of 9-1-1 Fund, which were audited by other auditors, applied the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* in their respective separately issued financial statements. However, based on the lack of availability of audited pension amounts from the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico at the time of the respective issuance of their financial statements, the other auditors qualified their opinions due to the lack of sufficient appropriate audit evidence on the pension amounts, including net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. Accordingly, we were not able to obtain sufficient appropriate audit evidence about the pension amounts included in the financial statements of the Aggregate Remaining Fund Information. The net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense included for these funds in the financial statements of the Aggregate Remaining Fund Information for the Commonwealth were $61.2 million, $20.1 million, $1.2 million, and $0, respectively.

Basis for Qualified Opinions – Unaudited Cash Balance

The financial statements of the Disability Insurance Fund and the Driver's Insurance Fund (the Disability and Driver's Funds) as of June 30, 2018 were audited by other auditors, whose report thereon, dated March 21, 2019, include a " Basis of Qualified Opinion" paragraph stating that the Disability and Driver's Funds did not maintain adequate accounting records and reconciliation procedures over its cash held by the Puerto Rico Secretary of Treasury amounting to $60.7 million as of June 30, 2018, and were unable to obtain sufficient appropriate audit evidence regarding such balance. Accordingly, we were also unable to obtain sufficient appropriate audit evidence regarding the adequacy of such balances included in the financial statements of the Aggregate Remaining Fund Information of the Commonwealth as of June 30, 2018.

Qualified Opinions

In our opinion, based on our audit and the report of other auditors, except for the possible effects of the matters described in the "Basis for Qualified Opinions (Scope Limitation) for Aggregate Discretely Presented Component Units and Aggregate Remaining Fund Information" paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units and aggregate remaining fund information as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Unmodified Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Commonwealth of Puerto Rico as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Emphasis of Matters

Uncertainty about Ability to Continue as a Going Concern – Primary Government

The accompanying basic financial statements have been prepared assuming that the Commonwealth will continue as a going concern. As discussed in note 2(a) to the basic financial statements, the Commonwealth is in the midst of a fiscal, economic and liquidity crisis, an economic recession, high unemployment rate, a population decline, high levels of debt and pension related obligations, and has stated that substantial doubt exists about the Commonwealth's ability to continue as a going concern. Additionally, on May 3, 2017, the Financial Oversight and Management Board (the Oversight Board) at the request of the Governor, filed a petition for relief under Title III of the U.S. Congress Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) in the United States District Court for the District of Puerto Rico. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in note 2(a). The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinions on the basic financial statements are not modified with respect to this matter.

Uncertainty about Ability to Continue as a Going Concern – Major Discretely Presented Component Units

The accompanying basic financial statements have been prepared assuming that the major discretely presented component units of the Commonwealth will continue as a going concern. As discussed in note 2(b) to the basic financial statements, the Commonwealth has stated that substantial doubt exists for the following major discretely presented component units to continue as a going concern. Management's evaluation of the events and conditions and management's plans in regard to these matters are described in note 2(b) to the basic financial statements. The basic financial statements do not include any adjustments that might result from the outcome of these uncertainties. Our opinions on the basic financial statements are not modified with respect to these matters.

- *Government Development Bank for Puerto Rico (GDB)*

  The financial statements of GDB as of June 30, 2018 and for the year then ended were audited by other auditors, whose report thereon, dated March 2, 2021, included an emphasis of matter paragraph related to GDB's ability to continue as a going concern. As stated in GDB's independent auditors' report, the Commonwealth and its component units have not been able to repay their loans from the GDB, which has significantly affected GDB's liquidity and ability to repay its obligations. In addition, on March 23, 2018, GDB ceased its operations and determined to wind down in an orderly fashion under Title VI of PROMESA.

- *Puerto Rico Highways and Transportation Authority (PRHTA)*

  The financial statements of PRHTA as of June 30, 2018 and for the year then ended were audited by other auditors, whose report thereon, dated March 25, 2019, included an emphasis of matter paragraph related to PRHTA's ability to continue as a going concern. As stated in PRHTA's independent auditors' report, PRHTA has had significant recurring losses from operations, does not have sufficient funds available to fully repay its various obligations as they come due, and has defaulted on the payments of principal and interest on multiple bond series and lines of credits. Also, on May 21, 2017, the Oversight Board, at the request of the Governor, commenced a case for PRHTA by filing a petition for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico.

- *Puerto Rico Electric Power Authority (PREPA)*

  PREPA has an accumulated deficit of approximately $6.8 billion as of June 30, 2018, does not currently have sufficient funds available to fully repay its various obligations as they come due, and has defaulted on the payment of various debt obligations. Also, on July 2, 2017, the Oversight Board, at the request of the Governor, filed a petition on behalf of PREPA for relief under Title III of PROMESA in the United States District Court for the District of Puerto Rico.

KPMG

- *University of Puerto Rico (UPR)*

  The financial statements of UPR as of June 30, 2018, and for the year then ended were audited by other auditors, whose report thereon, dated April 29, 2019, included an emphasis of matter paragraph related to UPR's ability to continue as a going concern. As stated in UPR's independent auditors' report, UPR is highly dependent on the Commonwealth's appropriations to finance its operations.

Restatement of Net Position

As discussed in note 4 to the basic financial statements, the net position of the aggregate discretely presented component units as of July 1, 2017 has been restated to correct misstatements. Our opinions are not modified with respect to this matter.

Adoption of New Accounting Pronouncement

As discussed in notes 1(bb) and 4 to the basic financial statements, the Commonwealth adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Change in Reporting of Pension Trust Funds

As discussed in notes 1(b), 4, and 18 to the basic financial statements, as a result of the enactment of Act 106 of August 23, 2017, the pension trust funds established to pay the accumulated pension benefits of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico, the Puerto Rico System of Annuities and Pensions for Teachers, and the Retirement System for the Judiciary of the Commonwealth of Puerto Rico, were eliminated and the legacy trust funds are now reported as blended component units within governmental activities. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 7 through 27; the schedules of changes in the net pension liability for single-employer pension plans on pages 258 and 259; the schedule of proportionate share of the net pension liability of a cost-sharing multiple-employer pension plan on page 260; the schedule of employers' contributions for all pension plans on page 261; the schedule of changes in total other postemployment benefits liability and related ratios for single-employer pension plans on pages 262–264; and the schedule of revenue and expenditures – budget and actual–budgetary basis – General Fund on page 265, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We were unable to apply certain limited procedures to the management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, due to the matters described in the "Basis for Qualified Opinions (Scope Limitation) for Aggregate Remaining Fund Information", and the "Basis for Qualified Opinion (Departure from U.S. Generally Accepted Accounting Principles) for Aggregate Remaining Fund Information". Additionally, although our opinions on the basic financial statements are not affected, the financial statement amounts included in the management's discussions and analysis contain material departures from U.S. generally accepted accounting principles because they do not include pension and OPEB amounts for certain entities and funds that did not apply the provisions of GASB Statement No. 68 and GASB Statement No. 75, respectively. We do not express an opinion or provide any assurance on the information.

KPMG

We and the other auditors have applied certain limited procedures to the schedules of changes in the net pension liability for single-employer pension plans; the schedule of the Commonwealth's proportionate share of the net pension liability of a cost-sharing multiple employer pension plan; the schedule of employers' contributions for all pension plans; the schedules of changes in total other postemployment benefits liability and related ratios for single-employer pension plans; the and the schedule of revenue and expenditures - budget and actual - budgetary basis - General Fund, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The combining and individual fund financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effect on the supplementary information of the matters described above in the "Basis for Qualified Opinions (Scope Limitation) for Aggregate Discretely Presented Component Units and Aggregate Remaining Fund Information" and, the "Basis for Qualified Opinion (Departure from U.S. Generally Accepted Accounting Principles) for Aggregate Remaining Fund Information" paragraphs, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KPMG LLP

San Juan, Puerto Rico
June 30, 2021

Stamp No. E434360 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

On November 6, 2018, the District Court approved GDB's Qualifying Modification under Title VI of PROMESA and the Qualifying Modification became effective as of November 29, 2018.

(ix) PRIFA-Ports Exchange

On December 27, 2019, PRIFA completed a private exchange that resulted in the resolution of over 92% of those certain Series 2011 bonds issued by PRIFA (Ports Authority Project) (the PRIFA-Ports Bonds). At the time of the exchange, the PRIFA-Ports Bonds were outstanding in an amount of approximately $190.6 million. Bondholders holding approximately $177.2 million participated in the private exchange and received their pro rata share (based on the entire amount of PRIFA-Ports Bonds outstanding) of a cash payment of approximately $82.4 million, resulting in the full resolution of such participating PRIFA-Ports Bonds. The recovery the PRIFA-Ports bondholders received in the exchange is in addition to the GDB DRA Bonds received by the PRIFA-Ports bondholders in connection with a settlement of the bondholders' letter of credit claims against GDB, which settlement was entered into as part of the GDB Title VI Qualifying Modification. After the exchange, the PRIFA-Ports Bonds remain outstanding in the total aggregate amount of approximately $13.5 million.

(d) Default of Bond Principal and Interest Payments

Because of the Commonwealth's retention of certain revenues conditionally allocated to public corporations and priority of payment provisions, as well as the Commonwealth's general financial condition, the Commonwealth and such public corporations were not able to make the debt service payments as they became due prior to the commencement of the Title III cases. Subsequent to the commencement of such cases, the automatic stay and other provisions of law have prevented payment of such amounts. The nature of the obligations of the Commonwealth and its public corporations to make such payments is currently the subject of ongoing litigation, as discussed in Note 17.

The table below summarizes the past due balance of principal and interest on bonds as of May 31, 2021 (in thousands):

		Principal	Interest	Past due Balance
Governmental activities:				
Commonwealth	$	1,997,586	3,538,622	5,536,208
PBA		322,733	934,180	1,256,913
PRIFA		311,190	415,354	726,544
ERS		—	582,816	582,816
PA		38,938	106,961	145,899
Total governmental activities		2,670,447	5,577,933	8,248,380
PFC appropriation bonds		194,830	324,830	519,660
Major component units:				
PRHTA		479,988	893,295	1,373,283
PREPA		1,339,916	1,626,472	2,966,388
PRASA		20,325	39,629	59,954
Total major component units		1,840,229	2,559,396	4,399,625
Nonmajor component units		86,407	90,058	176,465
Total	$	4,791,913	9,135,033	13,926,946

Requirement 1(E)

AAFAF Puerto Rico Fiscal Agency and Financial Advisory Authority

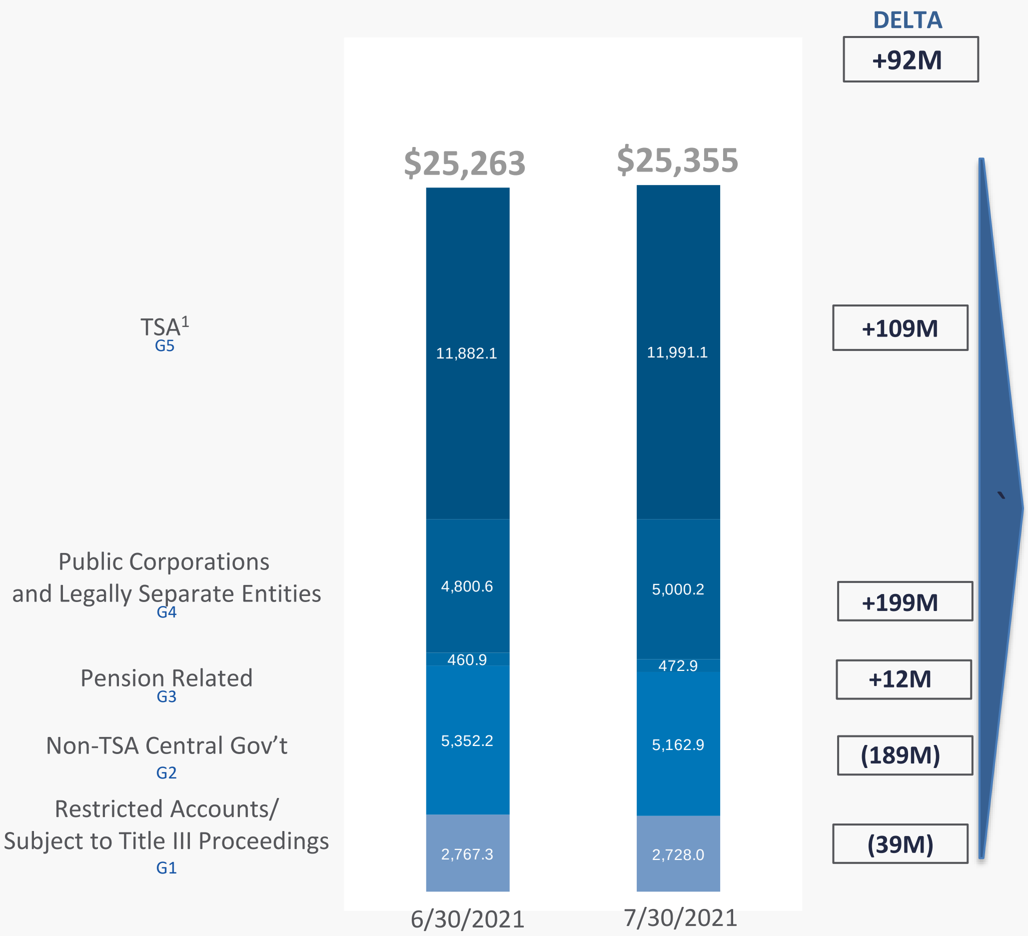
Summary of Bank Account Balances for the Government of Puerto Rico and its Instrumentalities

Information as of July 30, 2021

August 31, 2021

Executive Summary

$ in millions



__Key takeaways__:

1. Overall **balance** of reported accounts **increased by approximately $92M** from June 30th to July 31st.
2. Mainly driven by:

   a) **$199M increase in Public Corporations and Legally Separate Entities**

   b) **$109M increase in central Government's Treasury Single Account balance ("TSA[1]")**

   c) **$12M increase in Pension Related**

   d) **($39M) decrease in Restricted Accounts and/or subject to Title III Proceedings**

   e) **($189M) decrease in Central Gov't Non-TSA Accounts**

[1] Includes TSA Sweep Accounts.
* Refer to the groupings, 'G', as they summarize the current classifications presented in detail on Slide 7.

EXHIBIT K

Bank Account Balances for the Government and its Instrumentalities

	$ in millions *Revised Grouping*	*Balance as of* 6/30/2021	*Balance as of* 7/30/2021	*Notes*
G5	TSA	11,670.5	11,769.6	▪ Reported on a weekly basis on AAFAF's website.
G5	TSA Sweep	211.6	221.5	▪ TSA sweep includes the Gen Tax sweep account which holds unreconciled general fund revenues and the SUT sweep account which holds unreconciled SUT amounts. Both accounts are regularly swept into the TSA or other accounts as described on the following slide.
G3	Pension Related	460.9	472.9	▪ Accounts classified as 'Other PR Treasury Custody Accounts' grouped as Pension Related, mainly comprised of two (2) bank accounts held for the deposits of repayment of employee loans issued by the Retirement Systems. ▪ $342M on the account for employee loans repayment issued by the ERS, and $116M account balance for employee loans repayment issued by the TRS.
G2 G1	Central Gov't Non-TSA	5,350.9	5,162.9	▪ $2,242M American Rescue Plan Act Federal Funds. ▪ $506M Cares Act COVID-19 related Federal Funds. ▪ $541M Federal funds administered by the Public Housing Authority. ▪ $412M in Emergency Rental Assistance Program ▪ PR Unemployment Trust Fund at US Treasury of $301M. ▪ $226M lottery related funds. ▪ $92M under Child Support Administration
G1	COFINA	21.8	21.7	▪ The balance shown on the COFINA accounts as of **7/31/21** reflects operational funds post-effectiveness of the COFINA Plan.
G1 G4	Other Restricted Title III Accounts	988.5	999.6	▪ ERS related accounts of $286M, $556M GO Redemption Fund account, and $147M in claw back funds.
G1	PREPA	1,477.4	1,416.5	▪ Refer to the PREPA slide for breakdown of classified accounts.
G4	PRASA	959.7	802.2	▪ Refer to the PRASA slide for breakdown of classified accounts.
	HTA	279.6	290.2	▪ Refer to the HTA slide for breakdown of classified accounts.
G4	UPR	315.0	306.0	▪ Refer to the UPR slide for breakdown of classified accounts.
G4	ASES	309.6	204.1	▪ State and Federal funds used mainly for payments of health insurance premiums and claims.
	Other Public Corps & Legally Separate Entities	3,216.5	3,687.8	▪ Government entities with autonomous fiscal authority established by law. ▪ Slides 17 and 20 include an overview of the entities and balances.
	TOTAL	**$25,263M**	**$25,355M**	

* Refer to the groupings, 'G', as they are summarized on Slide 4.

EXHIBIT K

TSA, TSA Sweep and Pension Related Accounts

$ in millions

Grouping Subcategory	Balance as of 6/30/2021	Balance as of 7/30/2021	Notes
TSA	11,670.5	11,769.6	▪ The TSA is the Government's main operational bank account in which a majority of receipts from governmental funds are deposited and from which most expenses are disbursed. ▪ It includes tax collections, charges for services, intergovernmental collections and amongst other receipts and deposits.
TOTAL	**$11,671M**	**$11,770M**	

TSA Sweep Accounts[1]:

Grouping Subcategory	6/30/2021	7/30/2021	Notes
General & Agency Collections	-	-	▪ Accounts used for Government receipts from all the collection posts Island wide and the web based platform, '*Colecturía Virtual*' receipts in collections posts account, and for receipts of amounts collected by collection officers at the agencies mainly for charges for services and fees; swept daily to the TSA.
SUT	54.0	45.6	▪ Account used for consolidated receipts of Sales and Use Tax. Balances are swept on a daily basis into accounts held by the trustee of the COFINA bonds, the General Fund and/or the Municipal Administration Fund.
Gen Tax	157.6	175.9	▪ SURI GenTax Account. Balances are swept periodically to the TSA, numerous times each month upon completion of reconciliations for distribution.
TOTAL	**$212M**	**$221M**	

Pension Related:

Grouping Subcategory	6/30/2021	7/30/2021	Notes
Employee Withholding	460.9	472.8	▪ Accounts classified as 'Other PR Treasury Custody Accounts' grouped as Pension Related, mainly comprised of two (2) bank accounts held for the deposits of repayment of employee loans issued by the Retirement Systems. ▪ $342M on the account for employee loans repayment issued by the ERS, and $116M account balance for employee loans repayment issued by the TRS.
Pay-go charges	-	-	▪ Pay-go charges include balances from payments made by municipalities and public corporations in connection with benefits paid to retirees. These Pay-Go related charges are being deposited in a separate account and are programmed to sweep back to the TSA account for reimbursement of pension payments pertaining to Municipalities and Public Corporations.
TOTAL	**$461M**	**$473M**	

[1] Includes Zero Balance Accounts which are accounts used for disbursements of vendors payments, payroll and pensions. These accounts make disbursements and are automatically replenished from the TSA account.

EXHIBIT K

Restricted Accounts Subject to Title III Proceedings

$ in millions Grouping Subcategory	Balance as of 6/30/2021	Balance as of 7/30/2021	Notes
ERS Related Accounts	285.7	296.8	▪ $91M distributed across 14 operational accounts for the ERS. ▪ $111M relating to proceeds from sale of investments. ▪ $95M corresponding to a Post-petition Segregated Account created as part of a stipulation entered into as part of the Title III proceedings.
GO Redemption Funds	556.1	556.1	▪ Revenues from the 1.03% property tax collected since fiscal year 2017 and deposited in the Public Debt Redemption Fund.
Claw back	146.6	146.6	▪ $147M corresponding to revenues retained (or “clawed-back”) by the Government in fiscal year 2016 pursuant to Executive Order 2015-46 for the payment of General Obligation debt.
TOTAL	**$988M**	**$999M**	

The aforementioned funds are held in segregated accounts and most of them are subject to various claims under the Title III proceedings. The ultimate use of the funds may be subject to court determination.

FAFAA Puerto Rico Fiscal Agency and Financial Advisory Authority

Puerto Rico Department of Treasury

Treasury Single Account ("TSA") FY 2022 Cash Flow

As of September 3, 2021

As of September 3, 2021

Puerto Rico Department of Treasury | AAFAF

Executive Summary - TSA Cash Flow Actual Results

(figures in Millions)

Bank Cash Position	Weekly Cash Flow	YTD Net Cash Flow	YTD Net Cash Flow Variance
$11,351	($207)	($320)	($101)

Bridge from FY21 Liquidity Plan projected TSA Cash Balance to actual FY21 TSA Cash Balance as of September 3, 2021

	Cash Flow line item	Variance Bridge ($M)
	Liquidity Plan Projected Cash Balance 9/3/21:	$ 11,452
1	State Collections	96
2	Federal Fund Opex & Payroll Deficit	(109)
3	Payroll Timing Variance - Police	(40)
	All Other	(48)
	Actual TSA Cash Account Balance	**$ 11,351**

Comments

1. State collections are slightly ahead of plan. General fund collections drive $56M of the positive variance. The remaining $40M of outperformance pertains to SRF receipts, which are largely pledged to specific uses and expected to be cash flow neutral over the long term.
2. Federal fund reimbursements are lower than projected YTD. Reimbursement can lag as expenses are verified and reconciled, and reimbursements are often received with irregular cadence, which can result in temporary variances.
3. Police payroll is temporarily ahead of forecast, as the latest payroll was funded one day earlier than projected.

Source: DTPR

Exhibit L

Puerto Rico Department of Treasury | AAFAF

TSA Cash Flow Actual Results for the Week Ended September 3, 2021

	(figures in Millions)	FY22 Actual 9/3	FY22 LP 9/3	Variance 9/3	FY22 Actual YTD	FY22 LP YTD	FY21 Actual YTD (a)	Variance YTD FY22 vs YTD FY22 LP
	State Collections							
1	General fund collections (b)	$128	$49	$79	$1,857	$1,802	$1,473	$56
2	Other fund revenues & Pass-throughs (c)	4	1	4	36	22	35	14
3	Special Revenue receipts	16	3	13	82	70	90	11
4	All Other state collections (d)	10	10	0	108	93	55	15
5	Sweep Account Transfers	–	–	–	–	–	–	–
6	Subtotal - State collections (e)	$159	$62	$97	$2,083	$1,987	$1,652	$96
	Federal Fund Receipts							
7	Medicaid	–	–	–	256	395	818	(138)
8	Nutrition Assistance Program	55	50	5	770	689	525	81
9	All Other Federal Programs	33	44	(12)	251	456	220	(206)
10	Other	7	–	7	190	157	94	33
11	Subtotal - Federal Fund receipts	$94	$94	$0	$1,467	$1,697	$1,657	($230)
	Balance Sheet Related							
12	Paygo charge	19	22	(3)	91	72	123	19
13	Other	–	–	–	–	–	–	–
14	Subtotal - Other Inflows	$19	$22	($3)	$91	$72	$123	$19
15	**Total Inflows**	**$273**	**$179**	**$94**	**$3,641**	**$3,756**	**$3,432**	**($115)**
	Payroll and Related Costs (f)							
16	General fund (i)	(65)	(8)	(56)	(497)	(409)	(423)	(88)
17	Federal fund	(8)	(5)	(4)	(111)	(167)	(79)	55
18	Other State fund	(1)	(1)	(1)	(25)	(22)	(30)	(4)
19	Subtotal - Payroll and Related Costs	($74)	($13)	($61)	($633)	($597)	($532)	($37)
	Operating Disbursements (g)							
20	General fund (i)	(35)	(30)	(5)	(330)	(324)	(305)	(5)
21	Federal fund	(52)	(40)	(13)	(304)	(290)	(250)	(15)
22	Other State fund	(9)	(13)	4	(150)	(142)	(95)	(7)
23	Subtotal - Vendor Disbursements	($96)	($82)	($14)	($784)	($756)	($650)	($28)
	State-funded Budgetary Transfers							
24	General Fund (i)	(228)	(232)	5	(762)	(772)	(319)	10
25	Other State Fund	(10)	–	(10)	(20)	(18)	(46)	(3)
26	Subtotal - Appropriations - All Funds	($237)	($232)	($5)	($782)	($789)	($366)	$7
	Federal Fund Transfers							
27	Medicaid	–	–	–	(255)	(395)	(818)	139
28	Nutrition Assistance Program	(56)	(50)	(6)	(764)	(689)	(520)	(75)
29	All other federal fund transfers	–	–	–	(107)	(90)	(38)	(17)
30	Subtotal - Federal Fund Transfers	($56)	($50)	($6)	($1,126)	($1,174)	($1,375)	$48
	Other Disbursements - All Funds							
31	Retirement Contributions	(6)	–	(6)	(438)	(430)	(437)	(8)
32	Tax Refunds & other tax credits (h) (i)	(2)	(10)	8	(148)	(189)	(276)	41
33	Title III Costs	(7)	(4)	(3)	(42)	(35)	(44)	(7)
34	State Cost Share	–	–	–	–	–	–	–
35	Milestone Transfers	–	(0)	0	–	(1)	(2)	1
36	Custody Account Transfers	(2)	–	(2)	(7)	(3)	–	(4)
37	Cash Reserve	–	–	–	–	–	–	–
38	All Other	–	–	–	–	–	(58)	–
39	Subtotal - Other Disbursements - All Funds	($17)	($14)	($3)	($636)	($658)	($817)	$23
40	**Total Outflows**	**($480)**	**($392)**	**($88)**	**($3,961)**	**($3,974)**	**($3,740)**	**$14**
41	**Net Operating Cash Flow**	**($207)**	**($213)**	**$6**	**($320)**	**($218)**	**($308)**	**($101)**
42	Bank Cash Position, Beginning (j)	11,558	11,666	(107)	11,671	11,671	7,701	–
43	**Bank Cash Position, Ending (j)**	**$11,351**	**$11,452**	**($101)**	**$11,351**	**$11,452**	**$7,393**	**($101)**

Note: *Refer to the next page for footnote reference descriptions.*

Source: DTPR Exhibit L

CONGRESS.GOV

H. Rept. 114-602 - PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT

114th Congress (2015-2016)

Report Type: House Report
Accompanies: H.R.5278
Committees: Natural Resources

Report text available as: TXT | PDF (PDF provides a complete and accurate display of this text.) ?

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114th Congress    }                                 {    Rept. 114-602
                        HOUSE OF REPRESENTATIVES
 2d Session       }                                 {           Part 1

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PUERTO RICO OVERSIGHT, MANAGEMENT, AND ECONOMIC STABILITY ACT

____

June 3, 2016.--Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

____

Mr. Bishop of Utah, from the Committee on Natural Resources, submitted the following

R E P O R T

together with

ADDITIONAL VIEWS

[To accompany H.R. 5278]

[Including cost estimate of the Congressional Budget Office]

The Committee on Natural Resources, to whom was referred the bill (H.R. 5278) to establish an Oversight Board to assist the Government of Puerto Rico, including instrumentalities, in managing its public finances, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) Short Title.--This Act may be cited as the ``Puerto Rico Oversight, Management, and Economic Stability Act'' or ``PROMESA''.

Section 108. Autonomy of the Oversight Board

This section prevents the territorial government or legislature from exercising any control over the Oversight Board, or from enacting, implementing, or enforcing any legislation, resolution, policy, or rule that would impair the purposes of the Act. Furthermore, the Oversight Board is explicitly permitted to hire outside counsel for representation.

Section 109. Ethics

This section subjects all members and staff of the Oversight Board to Federal conflict of interest and financial disclosure requirements.

TITLE II--RESPONSIBILITIES OF OVERSIGHT BOARD

Section 201. Approval of Fiscal Plans

This section establishes the method for developing Fiscal Plans for territorial governments and instrumentalities that provide the appropriate elected officials with the autonomy to develop such Fiscal Plans with guidance from the Oversight Board. To initiate the process, the Oversight Board determines a schedule by which the Governor must provide an approvable and certifiable Fiscal Plan. If the Governor fails to draft an acceptable Fiscal Plan as determined by the Oversight Board by the deadlines set forth in the schedule, then the Oversight Board will develop and adopt the Fiscal Plan, which shall be deemed approved by the Governor.

Each Fiscal Plan serves as the cornerstone for the structural reforms the Oversight Board deems necessary to ensure the territory, or instrumentality, will be on a path towards ``fiscal responsibility and access to capital markets.'' These documents incorporate requirements including any recommendation made by the Oversight Board pursuant to Section 205, the elimination of structural deficits, as well as the improvement of fiscal governance, accountability, and internal controls. Importantly, Fiscal Plans ensure the protection of the lawful priorities and liens as guaranteed by the territorial constitution and applicable laws, and prevent unlawful inter-debtor transfers of funds.

The Committee acknowledges the concern as to the ambiguity of the language regarding the funding of public pension systems. To clarify, Section 201(b)(1)(C) tasks the Oversight Board with ensuring fiscal plans ``provide adequate funding for public pension systems.'' This language should not be interpreted to reprioritize pension liabilities ahead of the lawful priorities or liens of bondholders as established under the territory's constitution, laws, or other agreements. While this language seeks to provide an adequate level of funding for pension systems, it does not allow for pensions to be unduly favored over other indebtedness in a restructuring.

Section 202. Approval of budgets

This section outlines the process for developing annual budgets. Similar to the development of Fiscal Plans, the Oversight Board will establish a schedule the Governor and Legislature must meet for the development of territory and territorial instrumentality budgets. All budgets developed under this section must be developed in accordance with the appropriate Fiscal Plan. If the Governor and Legislature fail to develop certifiable budgets within the established deadline,

because the lease is subject to termination for failure of a debtor to appropriate rent.

Section 312. Filing of plan of adjustment

This section permits only the Oversight Board to file a plan of adjustment, once the Oversight Board has issued a certification pursuant to Section 104(j).

Section 313. Modification of plan

This section allows the Oversight Board to repeatedly change or modify a plan of adjustment, as submitted per Section 312, before such plan is confirmed, so long as such modification meets the requirements of Title III.

Section 314. Confirmation

This section outlines the conditions necessary to having a plan confirmed by a court. Under this section, the court shall confirm a plan if: (1) the plan complies with the referenced statutes in Section 301; (2) the plan complies with Title III; (3) the debtor is not prohibited by law from undertaking any of the actions of the plan; (4) unless otherwise agreed to, the holders of claims specified in 11 U.S.C. 507(a)(2) will receive cash equal to the allowed amount of such claim; (5) the debtor has secured the necessary legislative, regulatory, or electoral approval of such plan, or such provision is expressly conditioned on the securing of such actions; (6) the plan is in the best interest of the creditors and is feasible, which must include a consideration as to whether available remedies under the non-bankruptcy laws and constitution of the territory would result in a greater recovery for the creditors than is provided; and (7) the plan is consistent with the Fiscal Plan as established under Title II of PROMESA.

By incorporating consistency with the Fiscal Plan into the requirements of confirmation of a plan of adjustment, the Committee has ensured lawful priorities and liens, as provided for by the territory's constitution, laws, and agreements, will be respected in any debt restructuring that occurs.

Section 315. Role and capacity of Oversight Board

This section designates the Oversight Board as the representative of the debtor and authorizes the Oversight Board to take any action necessary on behalf of the debtor including the filing of a petition under Section 304, the submission or modification of a plan of adjustment, or the submission of other filings as required by the court.

Section 316. Compensation of professionals

This section permits the court to authorize the debtor's reasonable payment of professionals, such as attorneys, paralegals or others connected with a Title III proceeding. This ensures these professionals will receive compensation for services rendered during the Title III case.

Section 317. Interim compensation

This section authorizes the court to permit payment to professionals while the Title III case is ongoing.

TITLE IV--MISCELLANEOUS PROVISIONS

FINANCIAL OVERSIGHT & MANAGEMENT BOARD
FOR PUERTO RICO

BY ELECTRONIC MAIL

September 15, 2021

The Honorable Pedro Pierluisi Urrutia
Governor of Puerto Rico

The Honorable José Luis Dalmau Santiago
President of the Senate of Puerto Rico

The Honorable Rafael Hernández Montañez
Speaker of the House of Representatives of Puerto Rico

Dear Governor Pierluisi Urrutia, President Dalmau Santiago, Speaker Hernández Montañez:

Having consulted with the Government, the Oversight Board sends this letter to establish the schedule for the process of developing, submitting, approving and certifying a revised Fiscal Plan for the Commonwealth of Puerto Rico. The Oversight Board is initiating this process for revising the Certified Fiscal Plan in order to incorporate new information available regarding federal funding for Puerto Rico, the broader macroeconomic environment, and certain expenditure items. The revisions to the Certified Fiscal Plan will be limited in scope and will not revisit the broad range of forecasts and assumptions included in the Certified Fiscal Plan, which was certified in April 2021. Specifically, the Fiscal Plan will be revised to reflect only:

- **Economic and demographic updates:** including updated CBO estimates of US growth and inflation, updated population projections based on US Census updates, additional NAP funding announced by USDA, and the enactment of local EITC legislation
- **Expenditure updates:** to reflect cost to the Commonwealth of absorbing transferring PREPA workers, and other payments to be made during the next six months
- **Additional updates to federal funding:** only if federal legislation currently under discussion is enacted during the timeline of this fiscal plan update process (e.g., for additional Medicaid funds)

As such, pursuant to Section 201(a) of PROMESA, the schedule for the process of developing, submitting, approving and certifying the revised Fiscal Plan for the Commonwealth is as follows:

- *27th September 2021* - Pursuant to § 201(c)(2), the Governor shall submit proposed revisions to the Certified Fiscal Plan to the Oversight Board.
- *4th October 2021* - Pursuant to § 201(c)(3)(B), if necessary, the Oversight Board shall send the Governor a notice of violation.
- *8th October 2021* - Pursuant to § 201(d)(1), the Governor shall submit revised proposed revisions to the Certified Fiscal Plan to the Oversight Board.
- *20th October 2021* - Pursuant to § 201(e), the Oversight Board expects to certify a revised Fiscal Plan.

Given the limited nature of this update, it is not anticipated that extensions of time will be considered.

The Oversight Board looks forward to working with you to accomplish the requirements and goals of PROMESA for the benefit of the people of Puerto Rico.

Sincerely,

Natalie A. Jaresko

Natalie A. Jaresko

CC: Mr. Omar Marrero Díaz